THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AVIC International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser or transferee.

中航國際控股股份有限公司

AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00161)

VERY SUBSTANTIAL DISPOSAL: PROPOSED NON-PUBLIC ISSUANCE OF A SHARES BY TIAN MA AND DEEMED DISPOSAL OF INTEREST IN TIAN MA

Notice convening the EGM to be held on Monday, 11 November 2019 at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the PRC is set out on pages EGM-1 to EGM-2 of this circular. The form of proxy for use by the Shareholders at the EGM (or any adjournment thereof) is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the legal address of the Company at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the PRC (for holders of Domestic Shares) or to the registrar of H shares of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

25 October 2019

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"a-si LCD"	a-si Liquid Crystal Display (非晶硅液晶顯示器);
"A Share(s)"	A share(s) of Tian Ma;
"AMOLED"	active matrix organic light emitting diode (主動矩陣有機發光二極體面板);
"AVIC Acting-in-Concert Agreement"	an acting-in-concert agreement dated 20 January 2014 entered into between AVIC International, AVIC Shenzhen and the Company in relation to the voting arrangement among them in Tian Ma;
"AVIC International"	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a limited liability company established in the PRC, and a controlling Shareholder;
"AVIC International Enterprises"	collectively, AVIC International Holding Corporation (中國航空技術國際控股有限公司), AVIC International Shenzhen Company Limited (中國航空技術深圳有限公司), the Company and AVIC International Xiamen Company Limited (中國航空技術廈門有限公司);
"AVIC Shenzhen"	AVIC International Shenzhen Company Limited (中國航空技術深圳有限公司), a limited liability company established in the PRC, a controlling Shareholder, and as at the Latest Practicable Date, its entire equity interest was owned by AVIC International;
"AVIC Xiamen"	AVIC International Xiamen Company Limited (中國航空技術廈門有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of the Company;
"Base Issue Price"	the base issue price for each New A Shares under the Proposed Non-Public Issuance;
"Board"	the board of Directors;

"Company"	AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the Stock Exchange;
"Composite Document"	the composite document in relation to the H Share Offer to be issued jointly by AVIC International and the Company to the holders of the H Shares in accordance with the Takeovers Code and the Listing Rules;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會);
"Director(s)"	the director(s) of the Company;
"Domestic Shares"	domestic share(s) of nominal value of RMB1.00 each in the capital of the Company;
"EGM"	extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Proposed Non-Public Issuance and the deemed disposal arising therefrom;
"EPC"	Engineering, procurement and construction;
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
"FPD"	flat panel display (平板顯示器);
"Group"	the Company and its subsidiaries;
"H Shares"	overseas listed foreign invested share(s) of the nominal value of RMB1.00 each in the capital of the Company, which are listed on the Stock Exchange and subscribed for and traded in HK$;

"H Share Offer"	the voluntary conditional offer to be made by China International Capital Corporation Hong Kong Securities Limited, the exclusive financial adviser to AVIC International on behalf of AVIC International to acquire all of the issued H Shares, details of which are set out in the joint announcement of the Company and AVIC International dated 2 October 2019;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party"	an individual or a company which is independent of and not connected with the Company and its connected persons;
"Latest Practicable Date"	22 October 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this circular;
"LCD"	the liquid crystal display (液晶顯示器);
"LCM"	the liquid crystal display Module (液晶顯示模塊或液晶顯示模組);
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"LTPS"	low temperature polycrystalline silicon (低溫多晶硅);
"MIC"	Microwave Integrated Circuits (微波集成電路);
"New A Share(s)"	new A Share(s) to be issued under the Proposed Non-Public Issuance;
"PCB"	printed circuit board (印製電路板);
"PRC"	the People's Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"Price Determination Date"	the determination date of the Base Issue Price, being the first day of the issue period of the Proposed Non-Public Issuance;
"Proposed Non-Public Issuance"	the proposed issuance of new A Shares by Tian Ma for raising a maximum amount of RMB7,300,000,000 by way of non-public offer;
"RED Company"	AVIC International Renewable Energy Development Co., Ltd. (中航國際新能源發展有限公司);
"RMB"	Renminbi, the lawful currency of the PRC;
"S$"	Singapore dollar, the lawful currency of Singapore;
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會);
"SCC"	Shennan Circuits Co., Ltd (深南電路股份有限公司) (Stock code: 002916), a joint stock limited company established in the PRC with limited liability and a non-wholly-owned subsidiary of the Company, the A shares of which are listed on the Shenzhen Stock Exchange;
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	share(s) of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Exchange"	the Stock Exchange of Hong Kong Limited;
"Subscriber(s)"	the target investors who will enter/entered into Subscription Agreements with Tian Ma;

"Subscriber A"	Hubei Changjiang Tianma Fixed Investment Fund Partnership (Limited Partnership) (湖北長江天馬定增投資基金合夥企業(有限合夥)), a limited liability partnership established in the PRC, the equity interest of which was directly and indirectly owned as to 100% by State-owned Assets Supervision and Administration Commission of Wuhan Municipal People's Government (武漢市人民政府國有資產監督管理委員會);
"Subscriber A Acting-in-Concert Agreement"	an acting-in-concert agreement dated 28 August 2019 entered into between the Company and Subscriber A;
"Subscription Agreement(s)"	the conditional agreements in relation to the subscription for the New A Shares which has been entered into or will be entered into between the Company and each of the Subscribers;
"Takeovers Code"	the Code on Takeovers and Merger published by the SFC;
"TED Company"	AVIC International Trade & Economic Development Company Limited (中航技國際經貿發展有限公司);
"Tian Ma"	Tian Ma Microelectronics Company Limited (天馬微電子股份有限公司), (A Shares stock code: 000050), a non-wholly owned subsidiary of the Company, the A Shares of which are listed on the Shenzhen Stock Exchange; and
"Wuhan Tianma"	Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司), a company established with limited liability under the laws of the PRC, and as at the Latest Practicable Date, its equity interest is owned as to 100% by Tian Ma.

In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00161)

Executive Directors:
Mr. Liu Hong De
Mr. Lai Wei Xuan
Mr. You Lei
Mr. Liu Jun
Mr. Fu Fang Xing
Mr. Chen Hong Liang

Independent non-executive Directors:
Ms. Wong Wai Ling
Mr. Wu Wei
Mr. Wei Wei

Legal address:
39/F, AVIC Center Building
No. 1018 Huafu Road
Futian District, Shenzhen
Guangdong Province
PRC

Principal place of business in Hong Kong:
Room 1603
16/F, China Building
29 Queen's Road Central
Hong Kong

25 October 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL:
PROPOSED NON-PUBLIC ISSUANCE OF A SHARES BY TIAN MA AND DEEMED DISPOSAL OF INTEREST IN TIAN MA

INTRODUCTION

Reference is made to the announcement of the Company dated 28 August 2019.

On 28 August 2019, the board of directors of Tian Ma, a non-wholly owned subsidiary of the Company whose A Shares are listed on the Shenzhen Stock Exchange, resolved to issue by way of non-public offer not more than 409,624,610 New A Shares to not more than 10 Subscribers, to raise a maximum amount of proceeds of RMB7,300,000,000.

As at the Latest Practicable Date, one Subscriber (i.e. Subscriber A) has been identified and Tian Ma entered into a Subscription Agreement with Subscriber A on 28 August 2019, pursuant to which Tian Ma conditionally agreed to issue and Subscriber A conditionally agreed to subscribe for not more than 81,924,922 New A Shares.

Further, on 28 August 2019, the Company entered into the Subscriber A Acting-in-Concert Agreement with Subscriber A whereby the Company and Subscriber A agreed to act jointly with regard to certain shareholders' rights related matters.

The 409,624,610 New A Shares represent 20% of the issued share capital of Tian Ma as at the Latest Practicable Date and approximately 16.67% of the issued share capital of Tian Ma as enlarged by the issue of the New A Shares.

As at the Latest Practicable Date, the Company holds 291,567,326 A Shares in Tian Ma, representing approximately 14.24% equity interest in Tian Ma. Following the completion of the Proposed Non-Public Issuance and assuming all 409,624,610 New A Shares are issued, the equity interest of the Company in Tian Ma will be diluted from approximately 14.24% to approximately 11.86%. Such dilution of the Company's equity interest in Tian Ma will constitute a deemed disposal of the Company's equity interest in Tian Ma under Chapter 14 of the Listing Rules.

Since the Company will continue to have control over the majority of the board of directors of Tian Ma and the AVIC International Enterprises collectively have 30.99% voting rights in Tian Ma after the Proposed Non-Public Issuance, Tian Ma will remain to be a subsidiary of the Company upon completion of the Proposed Non-Public Issuance.

The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Non-Public Issuance; (ii) financial and other information of the Group; (iii) financial and other information of Tian Ma; (iv) unaudited pro forma financial information of the Group; and (v) the notice of the EGM.

PRINCIPAL TERMS OF THE PROPOSED NON-PUBLIC ISSUANCE

On 28 August 2019, the board of directors of Tian Ma, a non-wholly owned subsidiary of the Company whose A Shares are listed on the Shenzhen Stock Exchange, resolved to issue by way of non-public offer not more than 409,624,610 New A Shares to not more than 10 Subscribers, to raise a maximum amount of proceeds of RMB7,300,000,000. The 409,624,610 New A Shares represent 20% of the issued share capital of Tian Ma as at the Latest Practicable Date and approximately 16.67% of the issued share capital of Tian Ma as enlarged by the issue of the New A Shares.

Set out below is a summary of the principal terms of the Proposed Non-Public Issuance:

Issue period and method	The Proposed Non-Public Issuance will be conducted at an appropriate time within 6 months (the "**Issue Period**") in due course after the approval being obtained from CSRC. The Proposed Non-Public Issuance will be carried out by way of non-public offer of New A Shares to not more than 10 investors.

Class and par value of the New A Shares	A Shares of Tian Ma with a par value of RMB1.00 each.
Target investors	Not more than ten (10) Subscribers who can satisfy the relevant requirements of CSRC. According to Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法) of CSRC, the Subscribers shall fulfill the conditions imposed by the general meeting of Tian Ma and the number of Subscribers shall not be more than 10. Also according to Detailed Implementation Rules for Non-Public Issuance of A Shares by Listed Companies (上市公司非公開發行股票實施細則) (the "**Implementation Rules**") of CSRC, the Subscribers shall be legal persons, natural persons or other legal investment organisations. A securities investment fund management company subscribing for the New A Shares with two or more of the funds under its management shall be deemed as one single subscriber. Trust investment companies shall only subscribe for the New A Shares with their own capital.

For the selection of Subscribers, according to Implementation Rules, if the Subscribers fall under the following circumstances, the Subscribers and the pricing criteria shall be determined by the resolution of the board of directors of Tian Ma in relation to the Proposed Non-Public Issuance and be approved by general meeting of Tian Ma. The New A Shares subscribed shall not be transferable within 36 months of the completion of the Proposed Non-Public Issuance and the date of listing on the Shenzhen Stock Exchange:

(1) the Subscriber is the controlling shareholder or actual controller of Tian Ma or an affiliate controlled by the controlling shareholder or actual controller of Tian Ma; or

(2) the Subscriber obtains the actual control of Tian Ma by subscribing for the New A Shares; or

(3) the Subscriber is a domestic or foreign strategic investor proposed to be introduced by the board of directors of Tian Ma.

If the Subscribers do not fall under the circumstances as stated above, Tian Ma will determine the issue price and the Subscribers by way of bidding according to the Implementation Rules after obtaining the approval document of CSRC and the New A Shares subscribed shall not be transferable within 12 months of the completion of the Proposed Non-Public Issuance and the date of listing on the Shenzhen Stock Exchange.

For the Proposed Non-Public Issuance, there will be not more than ten (10) Subscribers including (i) Subscriber A which is a specific Subscriber falling under one of the circumstances as stated above and will subscribe for not more than 81,924,922 New A Shares representing not more than 20% of total New A Shares issued under the Proposed Non-Public Issuance; and (ii) other Subscribers which do not fall under the circumstances as stated above and will be determined by Tian Ma after obtaining the approval document of CSRC. The Subscriber A undertakes that it will not attend the bidding process and will accept the final issue price regardless of the results of the bidding process. If the final issue price can be determined through the bidding process, Subscriber A will subscribe for the New A Shares according to the final issue price. If the final issue price cannot be generated through the bidding process, Subscriber A will subscribe for the New A Shares at the Base Issue Price.

As at the Latest Practicable Date, Tian Ma has entered into a Subscription Agreement with Subscriber A on 28 August 2019. Not more than 9 target Subscribers shall be determined after obtaining the approval from CSRC on the Proposed Non-Public Issuance by the mutual negotiation between the board of directors of Tian Ma (pursuant to the mandate granted by the shareholders of Tian Ma) and the underwriter in accordance with the results of price bidding and the relevant requirements of the regulations of CSRC.

Subscriber A and its ultimate beneficial owner(s) are Independent Third Parties.

Issue price and the determination basis

The Price Determination Date of the New A Shares shall be the first day of the Issue Period of the Proposed Non-public Issuance.

The Base Issue Price per each New A Share shall be no less than 90% of the average trading price of the A Shares for the 20 trading days preceding the Price Determination Date (excluding the Price Determination Date). In the event that there are ex-right or ex-dividend activities causing adjustment to the price of the A Shares during the 20 trading days period, the Base Issue Price will be adjusted accordingly.

The average trading price of the A Shares for the 20 trading days preceding the Price Determination Date shall be the total trading amount of A Shares for the 20 trading days preceding the Price Determination Date divided by the total trading volume of A Shares for the 20 trading days preceding the Price Determination Date. In the event that there are ex-right or ex-dividend activities causing adjustment to the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the price adjusted by the ex-right or ex-dividend activities.

According to the Implementation Rules, the sponsor shall provide not less than 55 subscription invitations to the eligible specific target investors which shall include (i) the investors who have submitted the letter of intention for subscription after the announcement is issued by Tian Ma; (ii) the top 20 shareholders of Tian Ma; and (iii) the inquiry targets or target investors which are securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors and other institutional investors recognised by CSRC that meet with the conditions stipulated in the Measures for the Administration of Securities Issuance and Underwriting (證券發行與承銷管理辦法) including (1) not less than 20 securities investment fund management companies; (2) not less than 10 securities companies; and (3) not less than 5 insurance institutional investors.

Thereafter, Tian Ma and the sponsor shall collect the subscription quotations from such specific investors, make cumulative statistics on the effective subscription quotations and determine the target subscribers, issue price and the number of New A Shares to be issued based on the principles of price priority and time priority. The board of directors of Tian Ma shall determine the final Base Issue Price with reference to the prices offered by the specific investors regardless of whether there are more or less than 55 specific investors who have applied to participate in the Proposed Non-Public Issuance pursuant to the requirements of CSRC pursuant to the authorization to be granted in the general meeting of Tian Ma after having discussed with the lead underwriter of the Proposed Non-Public Issuance. The Base Issue Price shall be finalized after CSRC has approved the Proposed Non-Public Issuance.

With reference to be made to the highest issue price of non-public offering of A Shares by Tian Ma during the past five years and the funding needs for the Proposed Non-Public Issuance, the final issue price for the Proposed Non-Public Issuance will be determined through way of bidding in accordance with the approvals from the relevant supervising authorities of SASAC and CSRC in accordance with the relevant regulatory requirements. The final issue price for the Proposed Non-Public Issuance will be disclosed in due course if it has been determined.

Issue size

The maximum number of the New A Shares to be issued under the Proposed Non-public Issuance shall be no more than 20% of the total issued share capital of Tian Ma as at the Latest Practicable Date, i.e. no more than 409,624,610 New A Shares (inclusive).

In the event that Tian Ma distributes dividend shares, grants bonus shares, converts capital reserve into share capital or carries out any other ex-right activities during the period commencing from the date of passing the board resolutions in relation to the Proposed Non-Public Issuance to the issue date of New A Shares, the issue size of the Proposed Non-Public Issuance will be adjusted accordingly.

The finalized issue size shall be determined by the board of directors of Tian Ma pursuant to the authorization to be granted in the general meeting of Tian Ma and having discussed with the lead underwriter of the Proposed Non-Public Issuance.

As at the Latest Practicable Date, Tian Ma is in the course of identifying the lead underwriter and will determine the lead underwriter and enter into the underwriting agreement before filing the application of the Proposed Non-Public Issuance to CSRC. It is expected that the lead underwriter shall mainly responsible for underwriting the New A Shares to be issued under the Proposed Non-Public Issuance, coordinating the process of Proposed Non-Public Issuance, making the issuance documents, communicating with the CSRC on the issuance plan and identifying qualified investors to participate in providing subscription quotations.

Amount and use of proceeds

The maximum amount of proceeds from the Proposed Non-Public Issuance is expected to be no more than RMB7,300,000,000 (inclusive).

The proceeds raised from the Proposed Non-Public Issuance are intended to be used for the investment in the construction of second phase of 6th generation of LTPS AMOLED production line of Wuhan Tianma after deducting the costs for the Proposed Non-Public Issuance.

Lock-up period of the New A Shares

The New A Shares subscribed by Subscriber A are not transferable for a period of 36 months commencing from the date of listing of the New A Shares on the Shenzhen Stock Exchange.

The New A Shares subscribed by the other Subscribers are not transferable for a period of 12 months commencing from the date of listing of the New A Shares on the Shenzhen Stock Exchange.

Upon expiry of the applicable lock-up period, the New A Shares shall be traded on the Shenzhen Stock Exchange and the relevant Subscribers may transfer their New A Shares pursuant to the relevant regulations of CSRC and the Shenzhen Stock Exchange.

The Subscription Agreements

Tian Ma entered/will enter into Subscription Agreements with each of the Subscribers under the Proposed Non-Public Issuance during the Issue Period. Apart from Subscriber A, the identities and subscription amounts of the other Subscribers will be determined pending the result of the subscription quotations. Tian Ma shall sign formal Subscription Agreements with such other Subscribers after the result of the Proposed Non-Public Issuance is available in compliance with the relevant regulations of the CSRC. It is expected that the result of the Proposed Non-Public Issuance will be determined on or before 30 June 2020.

Save for the date of the Subscription Agreements, identity of the Subscribers, the subscription amounts and number of New A Shares to be subscribed, and the length of the lock-up period of the New A Shares, the principal terms of the Subscription Agreements entered by each of the Subscribers with Tian Ma are substantially the same and set out as follows:

Parties	Tian Ma (as issuer); and the relevant Subscriber (as subscriber)
Subject matter	Tian Ma conditionally agreed to issue and the relevant Subscriber conditionally agreed to subscribe for the New A Shares at the final issue price determined through the bidding process by cash at the Base Issue Price per New A Share.
New A Shares	The aggregate amount of New A Shares to be subscribed by the Subscribers shall not be more than 409,624,610 New A Shares. In the event that the maximum amount of New A Shares to be issued under the Proposed Non-Public Issuance as approved by the regulatory authority is lower than 409,624,610 New A Shares, the relevant amount of New A Shares to be subscribed by the relevant Subscriber shall be reduced in proportion to the percentage of New A Shares it has agreed to subscribed under the original maximum amount of 409,624,610 New A Shares. The New A Shares will rank pari passu with all the existing A Shares.

Conditions precedent

The effectiveness of the Subscription Agreement is conditional upon fulfillment of the following conditions:

(1) the Subscription Agreement having been signed and stamped by Tian Ma and the relevant Subscriber;

(2) the board of directors of Tian Ma and its shareholders having approved the Proposed Non-Public Issuance;

(3) all necessary approvals, authorization, consent and permit as required under the Listing Rules (including but not limited to the approval of the Board and the Shareholders (if required)) being obtained and completion of the relevant procedures by the Company as required under the Listing Rules;

(4) the relevant State-owned assets supervision department which is responsible for the supervision of Proposed Non Public Issuance by Tian Ma having approved the Proposed Non-Public Issuance;

(5) the Proposed Non-Public Issuance having been approved by the internal decision-making authority of the relevant Subscriber;

(6) the Proposed Non-Public Issuance having been approved by the internal decision-making authority of Tian Ma; and

(7) the approval of the CSRC being obtained.

Payment of subscription amount	After receiving all the approvals mentioned in the Subscription Agreement and the payment notice (the "Payment Notice") issued by Tian Ma or its lead underwriter, the relevant Subscriber will deposit the subscription amount in full to the bank account opened by the lead underwriter in accordance with the instructions contained in the Payment Notice. Tian Ma will separately sign an underwriting agreement with the lead underwriter and agree on the issues in relation to the transferring of raised funds to Tian Ma.
Lock-up period	Save for Subscriber A, the New A Shares subscribed by the other Subscribers are not transferable for a period of 12 months commencing from the completion of the Proposed Non-Public Issuance and the date of listing on the Shenzhen Stock Exchange. Pursuant to the Implementation Rules, the New A Shares subscribed by Subscriber A shall not be transferable for a period of 36 months commencing from the completion of the Proposed Non-Public Issuance and the date of listing on the Shenzhen Stock Exchange since Subscriber A is a party acting in concert with the Company (i.e. an associate (as defined under the Implementation Rules) of the controlling shareholder of Tian Ma) and a strategic investor proposed to be introduced into Tian Ma by the board of directors of Tian Ma.

On 28 August 2019, Tian Ma entered into a Subscription Agreement with Subscriber A whereby Subscriber A agreed to subscribe for not more than 81,924,922 New A Shares.

Concert Party Arrangement with Subscriber A

To ensure that the Company can continue to be the controlling shareholder of Tian Ma and consolidate the financial results of Tian Ma into the Group's financial statements pursuant to the applicable PRC rules and regulations, the Company entered into the Subscriber A Acting-in-Concert Agreement with Subscriber A on 28 August 2019.

Pursuant to the Subscriber A Acting-in-Concert Agreement, the Company and Subscriber A agreed that, during the effective period of the Subscriber A Acting-in-Concert Agreement Subscriber A shall irrevocably authorize the Company to exercise all its shareholder's right in Tian Ma under the PRC laws or the articles of association of Tian Ma (including the rights to propose resolutions, nominate directors or supervisors and voting rights etc.). Such authorization shall be exclusive of Subscriber A's right to profits, the distribution rights to remaining assets and right to information.

The Subscriber A Acting-in-Concert Agreement shall be effective from its signing date and expire on the earlier of (i) the Company becoming the direct holder of more than 50% equity interest in Tian Ma; or (ii) the Company and its concert parties (exclusive of Subscriber A) ceasing to hold any shares in Tian Ma; or (iii) 36 months from the date on which the Subscriber A subscribes for the New A Shares to the date of listing of New A Share. After the expiry of the Subscriber A Acting-in-Concert Agreement, the Company and Subscriber A can renew the Subscriber A Acting-in-Concert Agreement after negotiation.

Pursuant to the Subscriber A Acting-in-Concert Agreement, the Subscriber A further undertakes that:

(i) unless with the prior written consent of the Company, Subscriber A will not transfer any New A Shares to any third party(ies) other than the Company and/or concert parties of the Company;

(ii) Subscriber A will not transfer the New A Shares subscribed by Subscriber A to third party(ies) which will lead to the loss of control of Tian Ma by the Company or the inability of the Company to consolidate the financial statements of Tian Ma (subject to the judgment of the Company and/or the professional institutions hired by the Company); and

(iii) After the Subscriber A Acting-in-Concert Agreement has become effective, without the prior written consent of the Company, Subscriber A will not charge the New A Shares subscribed by the Subscriber A or create any encumbrances on the New A Shares subscribed by the Subscriber A.

Subscriber A is a limited liability partnership established in PRC on 24 July 2019. As at the Latest Practicable Date, its equity interest was directly and indirectly owned as to 100% by State-owned Assets Supervision and Administration Commission of Wuhan Municipal People's Government (武漢市人民政府國有資產監督管理委員會). The business scope of the Subscriber

A includes engaging in non-securities equity investment activities and related consulting services (excluding the following projects: (i) projects that are restricted and prohibited by the national laws and regulations and the State Council of PRC; (ii) the projects that involve in public offer and issuance of funds in any way; (iii) the projects that engage in public deposit or absorbing public deposits in disguised form; and (iv) the projects that engage in financial services such as issuing loans)(including the projects which are subject to the examination and approval in accordance with the laws by relevant authorities). It is principally engaged in management of equity investment which specifically focuses on the investment in the strategic emerging areas including the intelligent manufacturing area, etc. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, each of Subscriber A and its ultimate beneficial owner(s) is an Independent Third Party.

Effect on Shareholding Structure of Tian Ma

The table below sets out the shareholding structure of Tian Ma as at Latest Practicable Date and immediately upon completion of the Proposed Non-Public Issuance (assuming a maximum of 409,624,610 New A Shares are issued pursuant to the Proposed Non-Public Issuance and there is no other change in the issued share capital of Tian Ma):

	As at the Latest Practicable Date		Immediately after completion of the Proposed Non-Public Issuance	
Shareholders of Tian Ma	**Number of A Shares held**	**Approximate % of the issued share capital held**	**Number of A Shares held**	**Approximate % of the issued share capital held**
AVIC International	172,097,332	8.40%	172,097,332	7.00%
AVIC Shenzhen	179,516,146	8.77%	179,516,146	7.31%
The Company	291,567,326	14.24%	291,567,326	11.86%
AVIC Xiamen	36,525,940	1.78%	36,525,940	1.49%
Subtotal:				
AVIC International Enterprises	679,706,744	33.19%	679,706,744	27.66%
Subscriber A	–	–	81,924,922	3.33%
Subscribers other than Subscriber A	–	–	327,699,688	13.33%
Other shareholders of Tian Ma	1,368,416,307	66.81	1,368,416,307	55.68%
Total	2,048,123,051	100.00	2,457,747,661	100.00%

Save for the Subscriber A Acting-in-Concert Agreement, the Company also entered into the AVIC Acting-in-Concert Agreement with AVIC International and AVIC Shenzhen on 20 January 2014, pursuant to which AVIC International and AVIC Shenzhen agreed to act in concert with the Company in Tian Ma's board meetings and general meetings. Accordingly, taking into account of the Subscriber A Acting-in-Concert Agreement, the AVIC Acting-in-Concert Agreement and that AVIC Xiamen is a wholly-owned subsidiary of the Company, the Company is deemed to be interested in 761,631,666 A Shares, representing approximately 30.99% of the total issued share capital of Tian Ma upon completion of the Proposed Non-Public Issuance.

DEEMED DISPOSAL OF INTEREST IN TIAN MA

As at the Latest Practicable Date, the Company holds 291,567,326 A shares in Tian Ma, representing approximately 14.24% equity interest in Tian Ma. Following the completion of the Proposed Non-Public Issuance and assuming all 409,624,610 New A Shares are issued, the equity interest of the Company in Tian Ma will be diluted from approximately 14.24% to approximately 11.86%. Such dilution of the Company's equity interest in Tian Ma will constitute a deemed disposal of the Company's equity interest in Tian Ma under Chapter 14 of the Listing Rules.

Since the Company will continue to have control over the majority of the board of directors of Tian Ma and the AVIC International Enterprises collectively have 30.99% voting rights in Tian Ma after the Proposed Non-Public Issuance, Tian Ma will remain to be a subsidiary of the Company upon completion of the Proposed Non-Public Issuance.

INFORMATION OF THE COMPANY AND THE GROUP

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of flat panel displays and modules, printed circuit boards and watches, EPC projects, shipping business and trade and logistic business.

EPC projects are the projects where the Company is entrusted by the property owner to implement the whole process or several stages of design, procurement, construction and trial operation of the engineering construction projects.

The EPC business of the Company is mainly for the provision of services in relation to the overseas cement equipment engineering projects, petrochemical projects undertaken by AVIC International Beijing Company Limited, including design, procurement, construction and other services including transportation logistics services. In addition, overseas engineering projects undertaken by China National Aero-Technology International Engineering Corporation are also included in the business of EPC projects. EPC business includes the overseas EPC projects through the Company's wholly-owned subsidiaries which are AVIC International Beijing Company Limited and China National Aero-Technology International Engineering Corporation such as the cement project in Malaysia, Ankara cement project, southern expressway project in Sri Lanka and new international airport project in Angola Luanda.

On 26 April 2019, the Company published an announcement of resolution of the Board that the Company intends to dispose (the "**Disposals**") of its 69.77% equity interest in AVIC Weihai Shipyard Company Limited (中航威海船廠有限公司) and 22.35% equity interest in AVIC Sunda Holding Company Limited (中航善達股份有限公司) to China Merchants Offshore Engineering Investment (Shen Zhen) Co., Ltd. (深圳市招商局海工投資有限公司) and China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) respectively. The above Disposals have been approved by general meeting of the Company held on 23 August 2019. On 27 August 2019, the Company published an announcement of resolution of the Board that the Company intends to dispose (the "**AVIC Maritime Disposal**") of its 73.87% equity interest in AVIC International Maritime Holdings Limited ("**AVIC Maritime**") which constitutes a very substantial disposal of the Company. The AVIC Maritime Disposal is intended to be completed by the end of 2019. After completion of the Disposals and the AVIC Maritime Disposal, the Group will gradually withdraw from the shipping business. The shipping business accounted for a small portion of the Group's assets and revenue. After completion of the AVIC Maritime Disposal, it will not have a material adverse impact on the Group's remaining business operation and financial position.

INFORMATION OF TIAN MA

Tian Ma is a joint stock limited company incorporated in the PRC and its A Shares are listed on the Shenzhen Stock Exchange. It is principally engaged in the manufacture and sale of various kinds of FPD and related materials, equipment and products.

As at the Latest Practicable Date, the Company holds 291,567,326 A Shares in Tian Ma, representing approximately 14.24% equity interest in Tian Ma.

Set out below are the key financial figures of Tian Ma for each of the years ended 31 December 2017 and 2018 and six months ended 30 June 2019:

	For the year ended 31 December 2017 (audited) *(RMB'000)*	**For the year ended 31 December 2018 (audited)** *(RMB'000)*	**For the six months ended 30 June 2019 (unaudited)** *(RMB'000)*
Net (loss)/profit (before taxation)	892,487	1,019,173	695,805
Net (loss)/profit (after taxation)	807,204	983,879	643,588

The net assets of Tian Ma for the year ended 31 December 2018 (audited) and the six months ended 30 June 2019 (unaudited) are RMB26,004,730,600 (representing RMB12.70 per A Share) and RMB26,518,100,900 (representing RMB12.95 per A Share), respectively.

REASONS FOR AND BENEFITS OF THE PROPOSED NON-PUBLIC ISSUANCE AND THE DEEMED DISPOSAL

As mentioned above, the proceeds of RMB7,300,000,000 (assuming a maximum of 409,624,610 New A Shares are issued in full) to be raised from the Proposed Non-Public Issuance is intended to be applied in the construction of second phase of 6th generation of LTPS AMOLED production line of Wuhan Tianma after deduction of the issuance costs which will be subject to negotiation and the final agreements to be entered into among Tian Ma and the relevant intermediaries. The second phase of the 6th generation of LTPS AMOLED production line (the "**6th Generation Production Line**") of Wuhan Tianma will increase the capacity of flexible AMOLED, which will further improve the product range of Tian Ma, meet the market demand, enhance enterprise competitiveness and improve the self-sufficiency rate of domestic AMOLED display panel which will be a strategic move for Tian Ma to become bigger and stronger.

The 6th Generation Production Line mainly produces flexible AMOLED display or module with glass substrate of 1500mm × 1850mm. It is expected that upon completion of the expansion of the 6th Generation Production Line by construction of the second phase, the production capacity will increase to 37,500 pieces per month. Currently, the 6th Generation Production Line is the most advanced generation in the AMOLED technology and the leading production line in the industry.

As at the Latest Practicable Date, the products of Tian Ma are mainly LTPS LCD and LCM and a-si LCD and LCM products, which account for more than 90% of the total products of Tian Ma. The expansion of the 6th Generation Production Line will significantly increase Tian Ma's production capacity of AMOLED products, help to improve the product structure, enhance Tian Ma's competitiveness in the field of AMOLED display panels and further enhance the overall competitiveness of Tian Ma. The products under the expansion of the 6th Generation Production Line are mainly display screens for small and medium-sized products using mid-high end flexible AMOELD technology on the market, and thus such products will have broad application and prospects in the market. In 2018, AMOLED technology products accounted for only 17% of small and medium-sized display panel shipments with its sales accounting for 40% and in 2022 its shipments and sales are expected to increase. At present, AMOLED will be mainly used in wearable devices and high-end smart phones. With the improvement of AMOLED technology and production capacity and reduction in cost, AMOLED will be widely used in consumer electronics, smart cars, televisions and other fields such as smart phones, virtual reality, tablet computers and computers. Especially with the maturity of flexible AMOLED technology, folding screens and curved screens will become reality which will drive the overall innovation in the field of intelligent terminals and therefore lead to the broad market.

Upon completion of the Proposed Non-Public Issuance, on one hand, the total assets and net assets of Tian Ma will be increased at the same time, which will reduce the gearing ratio of Tian Ma and enable Tian Ma to enhance its ability to resist financial risks. On the other hand, upon achieving the capacity of the investment projects through raising funds, with the realization of the economies of scale and synergistic effects, the operating income and profit levels of Tian Ma will be increased significantly and the profitability will be enhanced rapidly. The synergistic effects include effects of both production capacity and customers. First, in terms of production capacity, the larger production capacity will lead to the better scale effect which is reflected in the bargaining power of raw materials and the unit production cost. Second effect is the customer synergy that the 5.5th generation production line of Shanghai Tian Ma Organic Light-Emitting Company Limited (上海 天馬有機發光顯示有限公司) and the phase I of 6th generation production line of Wuhan Tianma have been verified by many customers which is beneficial for the quick delivery to the customers after mass production of 6th Generation Production Line with enhancement of the profitability of Tian Ma. In summary, with the completion of construction of 6th Generation Production Line, the above synergistic effects will be exerted.

There will be no material gain or loss expected to accrue to the Company from the Proposed Non-Public Issuance. The Proposed Non-Pubic Issuance will not affect the control of Tian Ma by the Company. Tian Ma will still be the subsidiary of the Company and the results of Tian Ma will continue to be consolidated into the consolidated results of the Group. Therefore, there will be no significant impact on the revenue and net profit of the Group's consolidated statements. In the short term, the Proposed Non-Public Issuance is expected to be completed in June 2020. Therefore, the impact on the net profit of the Group will not be significant in 2019. In the long term, Tian Ma will increase its strategic investment after raising funds from the Proposed Non-Public Issuance, which will be beneficial for the completion of forward-looking business layout of Tian Ma, continuing consolidation of its industry position, which will in return expand the assets and revenue scale of Tian Ma and contribute positively to the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Proposed Non-Public Issuance and the Subscription Agreements are entered into in the ordinary and usual course of business of the Company and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the deemed disposal resulting from the Proposed Non-Public Issuance exceed(s) 75%, the deemed disposal constitutes a very substantial disposal of the Company under the Listing Rules and is therefore subject to announcement, reporting and shareholders' approval requirements under Chapter 14 of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS

With the publication of the joint announcement of the Company and AVIC International dated 2 October 2019, the offer period of the H Share Offer has commenced since 2 October 2019. Pursuant to Rule 10 of the Takeovers Code, the profit figures (both before and after taxation) of Tian Ma for the six months ended 30 June 2019 as set out in the section headed "Information of Tian Ma" in this circular and the announcement of the Company dated

28 August 2019 (the "**Announcement**") (the "**Required Financial Information A**") as well as the unaudited profit figures (both before and after taxation) of Tian Ma for the six months ended 30 June 2019 as set out in page 31 of this circular (the "**Required Financial Information B**", together with the "Required Information A", collectively, the "**Required Financial Information**") constitutes profit forecasts under Rule 10 of the Takeovers Code and must be reported on by the Company's financial adviser and its auditors or accountants in accordance with the Takeovers Code (the "**Profit Forecast Reports**") and such Profit Forecast Reports must be lodged with the Executive in accordance with Rule 10.4 of the Takeovers Code.

However, since the Required Financial Information A is prepared in accordance with PRC GAAP and published in the 2019 interim report of Tian Ma in accordance with the requirements with the listing rules of the Shenzhen Stock Exchange, the exemption from reporting requirement in Rule 10.9 of the Takeovers Code shall apply to the Required Financial Information A.

Taking into account (i) the practical difficulties to include the Profit Forecast Reports in respect of the Required Financial Information B in this circular in terms of the additional time required for the preparation of the Profit Forecast Reports by a financial adviser and auditors or accountants; and (ii) the requirements of timely disclosure of this circular pursuant to Rule 19A.39A of the Listing Rules, this circular do not meet the standard, and have not been reported on, as required by Rule 10 of the Takeovers Code. According to Practice Note 2 to the Takeovers Code on issues relating to profit forecasts under Rule 10 of the Takeovers Code, as the only reason for the disclosure of the Required Financial Information B is the requirements of the Listing Rules, the Executive is prepared to permit publication of the Required Financial Information B in this circular without full compliance with Rule 10 of the Takeovers Code. The Profit Forecast Reports in respect of the Required Financial Information B will be contained in the Composite Document to be despatched to the Shareholders.

Shareholders and investors of the Company should note that the Announcement and this Circular do not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and investors of the Company are advised to exercise caution in placing reliance on the Required Financial Information and when dealing in the shares of the Company and in assessing the merits and demerits of the Proposed Non-Public Issuance, the H Share Offer and the proposed merger. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

FINANCIAL EFFECTS OF THE PROPOSED NON-PUBLIC ISSUANCE ON EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

Assuming no more than 409,624,610 new shares of Tianma Company were issued at an issue price of RMB17.82 per share to raise a maximum amount of proceeds of RMB7,300,000,000 at 30 June 2019, the total assets of the Group will be increased from RMB108,296,101,000 to RMB115,535,664,000. The total earnings and the total liabilities of the Group will not be changed.

There will be no material gain or loss expected to accrue to the Company on the Proposed Non-Public Issuance.

For the intended use of proceeds from the Proposed Non-Public Issuance, please refer to the section headed "Principal Terms of the Proposed Non-Public Issuance" and "Reasons for and Benefits of the Proposed Non-Public Issuance and the Deemed Disposal" above.

EGM

The EGM will be convened by the Company at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the PRC on Monday, 11 November 2019 at 2:00 p.m., at which resolution will be proposed to consider and, if thought fit, approve the Proposed Non-Public Issuance and the transactions contemplated thereunder. Notice convening the EGM has been issued on 16 September 2019 and is set out again on pages EGM-1 to EGM-2 of this circular.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend (if you are so entitled to) the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return them as soon as possible to the Company's legal address at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the PRC (for holders of Domestic Shares), or the registrar of H shares of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquires, no Shareholder is required to abstain from voting for the resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the terms of the Proposed Non-Public Issuance are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Proposed Non-Public Issuance.

By order of the Board
AVIC International Holdings Limited
Liu Hong De
Chairman

FINANCIAL INFORMATION OF THE GROUP

Unaudited Consolidated Financial Information of the Group For the Six Months Ended 30 June 2019

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2019 are set out on pages 4 to 49 of the interim report of the Company for the six months ended 30 June 2019, which has been published on the website of the Company (www.avic161.com).

Financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 are disclosed in the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019, respectively, and there was no qualified audit opinion expressed on the consolidated financial statements of the Group for the three years ended 31 December 2018.

The said interim report and annual reports of the Group are published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.avic161.com):

- interim report of the Group for the period ended 30 June 2019 (pages 4 to 49) (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0905/ltn20190905778.pdf);

- annual report of the Group for the year ended 31 December 2016 (pages 158 to 360) (available on http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0413/LTN20170413363.pdf);

- annual report of the Group for the year ended 31 December 2017 (pages 156 to 356) (available on http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0416/LTN201804161385.pdf);

- annual report of the Group for the year ended 31 December 2018 (pages 175 to 448) (available on http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0415/LTN20190415860.pdf).

INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement, the Group had total borrowings of RMB35,828,119,000, details of which are as follows:

	Secured and unguaranteed (Note i)	Unsecured Guaranteed (Note ii)	Unsecured Unguaranteed	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	5,778,661	3,013,000	7,619,118	16,410,779
Debentures	–	–	2,694,665	2,694,665
Third party borrowings	134,598	–	195,933	330,531
Amounts due to related parties	–	–	1,083,208	1,083,208
	5,913,259	3,013,000	11,592,924	20,519,183
Current				
Bank borrowings	216,092	1,467,100	10,457,658	12,140,850
Third party borrowings	49,862	–	–	49,862
Amounts due to related parties	–	270,000	2,848,224	3,118,224
	265,954	1,737,100	13,305,882	15,308,936
	6,179,213	4,750,100	24,898,806	35,828,119

(i) The secured borrowings of RMB6,179,213,000 as at 31 August 2019 were secured by right-of-use assets and property, plant and equipment of the Group.

(ii) The unsecured but guaranteed borrowings of RMB4,750,100,000 as at 31 August 2019 were guaranteed by AVIC International Holding Corporation (the holding company of the Company), AVIC International Shenzhen Company Limited (a major shareholder of the Company) or Xiamen Financial Investment Group Co., Ltd. (an independent third party).

Lease obligations

As at the close of business on 31 August 2019, the Group, as a lessee, has lease liabilities for the remainder of the relevant lease terms amounting to RMB354,651,000 in aggregate (excluding contingent rental arrangement). Except for lease liabilities of RMB234,403,000 which are secured by rental deposits and unguaranteed and lease liabilities of RMB4,022,000 which are secured by rental deposits and property, plant and equipment and unguaranteed, all the remaining amounts are unsecured and unguaranteed.

Contingent liabilities

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	31 August 2019 Outstanding amounts guaranteed
				RMB'000
AVIC International Beijing Company Limited (中國航空技術北京有限公司)	Subsidiary of the Company	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Independent third party	89,200

* The English name of the company represents management's best efforts in translating the Chinese name of the company as no English name has been registered or is available.

Save as disclosed above or otherwise mentioned herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not have any outstanding debentures issued and outstanding or authorized or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, other recognised lease liabilities or lease commitments, any other mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 31 August 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

WORKING CAPITAL STATEMENT

Taking into account the expected completion of the Proposed Non-Public Issuance and the other financial resources available to the Group including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

Looking ahead, the second half of 2019 will see global economic fluctuation and the further increase in downward pressure on domestic economy. Despite the external challenges, the Group will maintain its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth," with an aim to seize market opportunities and enhance the order acquisition capability, accelerate market expansion and project execution, strive to optimize the product structure and adjust the customer structure, as well as speed up the operational improvement of or withdrawal from loss-making businesses. Meanwhile, we will further sharpen our focus on principal business and strip away the real estate business through innovative business models to achieve our wholeyear operational target.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Group will closely monitor the changes in external environment and markets, continue to improve its market share, strengthen connections with customers in its advantageous fields, reinforce the expansion of new markets and new customers, and lay a solid foundation for reserving orders for new factories. The Group will continue to optimize its product structure, and effectively integrate market expansion with customer classification management to increase customer coverage and penetration of high value-added products. Tianma Company will seize the opportunity to initiate the re-finance project in the capital market, to accelerate the phase II construction of G6 AMOLED production line of Wuhan Tianma Microelectronics Co., Ltd. ("Wuhan Tianma") and improve the mass production capacity and quality. SCC will proactively promote its project in relation to the Proposed Issuance of A share convertible bonds to further consolidate its leading position in the PCB field.

On 8 April 2019, the board of directors of SCC had resolved to issue convertible bonds of SCC in the maximum amount of RMB1,520,000,000, which was calculated at the initial conversion price of RMB57.90 (before ex-rights and ex-dividend), the convertible bonds of SCC can be converted to a maximum of 26,252,158 conversion shares (before ex-rights and ex-dividend). On 18 October 2019, the application of SCC for the Proposed Issuance has been approved by the Issuance Review Committee of CSRC. At the date of this circular, SCC has not received the formal approval in writing.

Retails and Consumer Products Business

With deep combination of consumption demands of the customers, Fiyta will accelerate the optimization of its existing channel structures and increase yield per unit, continue to facilitate the cultivation of new brands and expansion of new business and new markets. It will also continue to strengthen the cost and expense control and improve operating efficiency, speed up the execution of smart retail projects in an orderly manner, and fully promote the continuous improvement of operating results.

International Engineering and Trading and Logistics Business

In the second half of 2019, the international engineering business of the Group will speed up the construction progress of its key projects, focus on the implementation of the Angolan airport project, and promote the early delivery of Algeria project. In respect of the mechatronics engineering business, we will further strengthen our operations control, vigorously promote the execution of key projects, and endeavor to improve the operation as early as possible. Regarding the cement engineering business, we will focus on the key markets, spare no efforts to obtain orders, sign new contracts for the commencement of cement and building materials and petrochemical engineering projects, and facilitate the execution of projects on hand in an orderly manner. For the trading and logistics business, we will continue with the equity transfer of Weihai Shipyard and simultaneously implement the equity transfer of our associate, AVIC Sunda.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF TIANMA MICRO-ELECTRONICS CO., LTD. AND ITS SUBSIDIARIES

Set out on pages 31 to 46 below are the unaudited financial information of Tianma Micro-electronics Co., Ltd. (the "Tianma Company") and its subsidiaries (hereinafter collectively referred to as the "Tianma Group"), which comprises the unaudited consolidated statement of financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019, the unaudited consolidated statement of profit or loss, the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for the three years ended 31 December 2018 and the six months ended 30 June 2018 and 2019 (the "Relevant Periods"), and certain explanatory notes (the "Unaudited Consolidated Financial Information").

The Unaudited Consolidated Financial Information has been prepared in accordance with basis of preparation as set out in Note 2 to the Unaudited Consolidated Financial Information and Paragraph 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Unaudited Consolidated Financial Information is prepared by the directors of AVIC International Holdings Limited (the "Company") solely for the purpose of inclusion in this circular of the Company in connection with the proposed non-public issuance of A shares of Tianma Company and deemed disposal of its interest ("Proposed Non-public Shares Issuance"). The Unaudited Consolidated Financial Information has been reviewed by the Company's reporting accountant, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by International Auditing and Assurance Standards Board and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the reporting accountants to obtain assurance that the reporting accountants would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountants do not express an audit opinion.

Based on the review, nothing has come to the reporting accountants' attention that causes them to believe that the Unaudited Consolidated Financial Information of the Tianma Group is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Unaudited Consolidated Financial Information.

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	15,591,079	23,477,597	28,537,031	13,792,758	14,472,593
Cost of sales	(12,594,701)	(18,834,067)	(24,325,830)	(11,757,089)	(12,303,349)
Gross profit	2,996,378	4,643,530	4,211,201	2,035,669	2,169,244
Other income	781,323	1,007,424	1,143,464	439,430	478,313
Other (losses)/gains – net	(21,095)	(25,935)	116,344	124,894	(681)
Impairment losses under expected credit loss model, net of reversal	(13,731)	(133,225)	(491,154)	(26,346)	(2,312)
Administrative expenses	(665,209)	(1,090,101)	(895,524)	(235,258)	(504,582)
Research and development expenses	(1,548,536)	(1,669,938)	(1,802,997)	(793,669)	(850,695)
Distribution costs	(387,442)	(431,749)	(480,666)	(233,409)	(227,444)
Fair value gain/(losses) on investment properties	5,255	4,955	771	–	(3,315)
Operating profit	1,146,943	2,304,961	1,801,439	1,311,311	1,058,528
Finance income	216,463	32,772	52,802	27,556	28,719
Finance costs	(222,077)	(693,367)	(894,944)	(449,011)	(425,298)
Finance costs – net	(5,614)	(660,595)	(842,142)	(421,455)	(396,579)
Share of results of joint ventures and associates	(4,938)	(37,943)	(7,817)	(9,256)	(917)
Profit before income tax	1,136,391	1,606,423	951,480	880,600	661,032
Income tax expenses	(171,107)	(150,961)	(35,825)	(71,381)	(51,558)
Profit for the year/period	965,284	1,455,462	915,655	809,219	609,474
Profit attributable to:					
Owners of Tianma Company	674,742	1,045,016	857,318	750,882	609,474
Non-controlling interests	290,542	410,446	58,337	58,337	–
	965,284	1,455,462	915,655	809,219	609,474

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year/period	965,284	1,455,462	915,655	809,219	609,474
Other comprehensive income for the year/period, net of tax					
Item that will not be reclassified to profit or loss					
– Remeasurement of post-employment benefit obligations, net of tax	(7,563)	4,635	(990)	–	–
Item that may be subsequently reclassified to profit or loss					
– Currency translation differences related to foreign operations	33,077	(11,936)	33,006	13,903	13,150
Other comprehensive income/(expense) for the year/period, net of tax	25,514	(7,301)	32,016	13,903	13,150
Total comprehensive income for the year/period, net of tax	990,798	1,448,161	947,671	823,122	622,624
Attributable to:					
Equity holders of Tianma Company	700,256	1,037,715	889,334	764,785	622,624
Non-controlling interests	290,542	410,446	58,337	58,337	–
Total comprehensive income for the year/period	990,798	1,448,161	947,671	823,122	622,624

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use rights	933,907	1,385,156	1,843,635	–
Right-of-use assets	–	–	–	1,873,768
Intangible assets	264,475	285,203	268,804	263,130
Property, plant and equipment	13,454,273	25,914,838	29,708,336	28,810,533
Construction-in-progress	13,896,620	10,757,552	12,867,351	15,104,162
Investment properties	51,452	56,407	57,178	53,863
Goodwill	268,825	268,615	319,447	319,681
Investments accounted for using the equity method	330,351	313,408	32,268	31,351
Trade and other receivables	28,660	28,260	27,104	26,686
Deferred income tax assets	229,783	283,159	377,435	406,781
Other non-current assets	421,290	30,844	40,028	190,236
	29,879,636	39,323,442	45,541,586	47,080,191
Current assets				
Inventories	1,531,367	2,585,714	3,125,012	3,204,387
Trade and other receivables	5,180,705	7,366,150	7,727,298	9,062,185
Pledged bank deposits	47,524	177,141	2,665	1,500
Cash and cash equivalents	5,078,821	5,340,457	3,684,350	4,269,307
	11,838,417	15,469,462	14,539,325	16,537,379
Total assets	41,718,053	54,792,904	60,080,911	63,617,570
Equity				
Equity attributable to owners of Tianma Company				
Share capital	1,401,099	1,401,099	2,048,123	2,048,123
Share premium	11,415,376	11,415,376	21,823,510	21,823,510
Other reserves	3,285,982	3,284,052	(371,397)	(358,247)
Retained earnings	980,506	1,936,085	2,642,742	3,108,847
	17,082,963	18,036,612	26,142,978	26,622,233
Non-controlling interests	6,246,353	6,656,799	–	–
Total equity	23,329,316	24,693,411	26,142,978	26,622,233

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Borrowings	5,983,901	10,018,024	13,349,781	14,452,189
Deferred income tax liabilities	88,350	29,776	72,407	65,257
Deferred income on government grants	1,789,163	1,811,631	1,312,087	1,018,087
Lease liabilities	–	–	–	28,680
Provisions	13,166	9,492	10,280	10,669
Retirement and other supplemental benefit obligations	210,812	202,048	220,474	228,530
	8,085,392	12,070,971	14,965,029	15,803,412
Current liabilities				
Trade and other payables	7,137,477	10,356,575	11,679,665	11,735,734
Contract liabilities	–	–	197,050	181,901
Lease liabilities	–	–	–	23,822
Borrowings	3,135,954	7,486,850	7,084,800	9,222,537
Current income tax liabilities	29,758	184,937	11,287	27,880
Retirement and other supplemental benefit obligations	156	160	102	51
	10,303,345	18,028,522	18,972,904	21,191,925
Total liabilities	18,388,737	30,099,493	33,937,933	36,995,337
Total equity and liabilities	41,718,053	54,792,904	60,080,911	63,617,570

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of Tianma Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2016	1,401,099	11,415,376	3,199,269	407,166	16,422,910	5,877,831	22,300,741
Profit for the year	–	–	–	674,742	674,742	290,542	965,284
Other comprehensive income for the year	–	–	25,514	–	25,514	–	25,514
Total comprehensive income for the year	–	–	25,514	674,742	700,256	290,542	990,798
Transactions with owners of Tianma Company:							
Dividend for 2015	–	–	–	(84,066)	(84,066)	–	(84,066)
Appropriation to other reserves	–	–	17,336	(17,336)	–	–	–
Deemed contribution by a shareholder of the Company	–	–	43,863	–	43,863	77,980	121,843
Total transactions with owners of Tianma Company	–	–	61,199	(101,402)	(40,203)	77,980	37,777
Balance as at 31 December 2016	1,401,099	11,415,376	3,285,982	980,506	17,082,963	6,246,353	23,329,316

	Unaudited						
	Attributable to owners of Tianma Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance as at 1 January 2017	1,401,099	11,415,376	3,285,982	980,506	17,082,963	6,246,353	23,329,316
Profit for the year	–	–	–	1,045,016	1,045,016	410,446	1,455,462
Other comprehensive expense for the year	–	–	(7,301)	–	(7,301)	–	(7,301)
Total comprehensive (expense)/income for the year	–	–	(7,301)	1,045,016	1,037,715	410,446	1,448,161
Transactions with owners of Tianma Company:							
Dividend for 2016	–	–	–	(84,066)	(84,066)	–	(84,066)
Appropriation to other reserves	–	–	5,371	(5,371)	–	–	–
Total transactions with owners of Tianma Company	–	–	5,371	(89,437)	(84,066)	–	(84,066)
Balance as at 31 December 2017	1,401,099	11,415,376	3,284,052	1,936,085	18,036,612	6,656,799	24,693,411

	Unaudited						
	Attributable to owners of Tianma Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2018	1,401,099	11,415,376	3,284,052	1,936,085	18,036,612	6,656,799	24,693,411
Profit for the year	–	–	–	857,318	857,318	58,337	915,655
Other comprehensive income for the year	–	–	32,016	–	32,016	–	32,016
Total comprehensive income for the year	–	–	32,016	857,318	889,334	58,337	947,671
Transactions with owners of Tianma Company:							
Dividend for 2017	–	–	–	(143,369)	(143,369)	–	(143,369)
Appropriation to other reserves	–	–	7,292	(7,292)	–	–	–
Issuance of shares	647,024	10,408,134	–	–	11,055,158	–	11,055,158
Acquisition of additional interests in a subsidiary from non-controlling shareholders	–	–	(3,694,757)	–	(3,694,757)	(6,715,136)	(10,409,893)
Total transactions with owners of Tianma Company	647,024	10,408,134	(3,687,465)	(150,661)	7,217,032	(6,715,136)	501,896
Balance as at 31 December 2018	2,048,123	21,823,510	(371,397)	2,642,742	26,142,978	–	26,142,978

	Unaudited						
	Attributable to owners of Tianma Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2018	1,401,099	11,415,376	3,284,052	1,936,085	18,036,612	6,656,799	24,693,411
Profit for the period	–	–	–	750,882	750,882	58,337	809,219
Other comprehensive income for the period	–	–	13,903	–	13,903	–	13,903
Total comprehensive income for the period	–	–	13,903	750,882	764,785	58,337	823,122
Transactions with owners of Tianma Company:							
Dividend for 2017	–	–	–	(143,369)	(143,369)	–	(143,369)
Issuance of shares	647,024	10,408,134	–	–	11,055,158	–	11,055,158
Acquisition of additional interests in a subsidiary from non-controlling shareholders	–	–	(3,694,757)	–	(3,694,757)	(6,715,136)	(10,409,893)
Total transactions with Owners of Tianma Company	647,024	10,408,134	(3,694,757)	(143,369)	7,217,032	(6,715,136)	501,896
Balance as at 30 June 2018	2,048,123	21,823,510	(396,802)	2,543,598	26,018,429	–	26,018,429

	Unaudited				
	Attributable to owners of Tianma Company				
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total Equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2019	2,048,123	21,823,510	(371,397)	2,642,742	26,142,978
Profit for the period	–	–	–	609,474	609,474
Other comprehensive income for the period	–	–	13,150	–	13,150
Total comprehensive income for the period	–	–	13,150	609,474	622,624
Transactions with owners of Tianma Company:					
Dividend for 2018	–	–	–	(143,369)	(143,369)
Total transactions with owners of Tianma Company	–	–	–	(143,369)	(143,369)
Balance as at 30 June 2019	2,048,123	21,823,510	(358,247)	3,108,847	26,622,233

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities					
Profit before income tax	1,136,391	1,606,423	951,480	880,600	661,032
Depreciation of property, plant and equipment	1,857,127	2,370,088	3,166,013	1,583,237	1,420,765
Finance costs – net	5,614	660,595	842,142	421,455	396,579
Other income – government grant	(737,558)	(871,090)	(1,001,018)	(375,392)	(404,766)
Others	475,730	373,365	425,592	(34,311)	153,320
Operating cash flows before movements in working capital	2,737,304	4,139,381	4,384,209	2,475,589	2,226,930
Increase in trade and other receivables	(570,300)	(2,450,853)	(474,812)	(1,181,312)	(1,382,260)
Increase in trade and other payables	135,592	1,647,405	40,674	79,805	603,673
Decrease/(increase) in contract liabilities	–	–	56,230	169,731	(15,149)
Others	105,825	(1,317,189)	(418,361)	(62,801)	(217,215)
Cash generated from operations	2,408,421	2,018,744	3,587,940	1,481,012	1,215,979
Interest paid	(268,303)	(432,984)	(722,131)	(361,125)	(368,208)
Income tax paid	(96,032)	(93,291)	(356,220)	(274,346)	(24,158)
Net cash generated from operating activities	2,044,086	1,492,469	2,509,589	845,541	823,613
Investing activities					
Government grants received	912,332	893,558	649,234	251,314	110,766
Payment for rental deposit	–	–	–	–	(876)
Proceeds for acquisition of a subsidiary, net of cash paid	–	–	56,901	56,901	–
Purchase of property, plant and equipment and construction-in-progress	(8,808,623)	(9,692,471)	(5,801,381)	(3,210,655)	(3,400,312)
Payment for land use rights	(6,773)	(481,010)	(230,720)	(224,000)	–
Purchase of a joint venture	(34,371)	–	–	–	–
Purchase of intangible assets	(131,076)	(67,723)	(26,710)	(11,692)	(22,999)
Interest received	50,771	32,772	52,802	27,556	28,719
Proceeds from disposal of property, plant and equipment	3,193	546	2,962	1,562	147
Proceeds from disposal of intangible assets	394	96	2,282	–	3,804
Net cash used in investing activities	(8,014,153)	(9,314,232)	(5,474,630)	(3,109,014)	(3,280,751)

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities					
Proceeds from borrowings	4,817,226	13,907,886	11,392,305	7,112,638	5,780,939
Repayment of lease liabilities	–	–	–	–	(12,846)
Dividends paid to the owners of Tianma Company	(84,066)	(84,066)	(143,369)	(143,369)	(143,369)
Repayments of borrowings	(3,435,065)	(5,556,390)	(10,296,926)	(6,920,966)	(2,591,850)
Borrowings from related parties	760,000	–	500,000	495,000	–
Repayments of borrowings from related parties	–	(100,000)	(172,000)	(100,000)	–
Payment of transaction costs from issuing of shares	–	–	(8,958)	(8,958)	–
Net cash from financing activities	2,058,095	8,167,430	1,271,052	434,345	3,032,874
Effects of exchange rate changes on cash and cash equivalents	147,891	(84,031)	37,882	19,990	9,221
Net (decrease)/increase in cash and cash equivalents	(3,764,081)	261,636	(1,656,107)	(1,809,138)	584,957
Cash and cash equivalents at beginning of year/(period)	8,842,902	5,078,821	5,340,457	5,340,457	3,684,350
Cash and cash equivalents at end of year/(period)	5,078,821	5,340,457	3,684,350	3,531,319	4,269,307

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Tianma Group was incorporated in the People's Republic of China (the "PRC") as a joint stock company with limited liability under the Company Law of the PRC. The registered office of Tianma Company is Tianma Building, Daxin Road, Nanshan District, Shenzhen, the PRC.

The Tianma Company's shares were listed on the Main Board of the Shenzhen Stock Exchange on 15 March 1995.

Tianma Company is principally engaged in the design, manufacturing and sale of flat panel displays and modules ("FPD") products in the PRC.

2. BASIS OF PREPARATION

The Unaudited Consolidated Financial Information of Tianma Group has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purposes of inclusion in the circular of the Company dated 25 October 2019 in connection with the Proposed Non-public Shares Issuance. It does not contain sufficient information to constitute a complete set of financial statements as described in International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Unaudited Consolidated Financial Information has been prepared in accordance with the accounting policies adopted by the Group as set out in the published annual report of the Company for the years ended 31 December 2016, 2017 and 2018 and the published interim report of the Company for the six months ended 30 June 2019 which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

The Unaudited Consolidated Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties and defined benefit pension plans.

The directors of Tianma Company have given consideration to the future liquidity of Tianma Group in light of the fact that Tianma Group had net current liabilities of RMB4,654,546,000 as at 30 June 2019. The management of Tianma Group is satisfied that Tianma Group will have sufficient financial resources to meet its future obligations and commitment as Tianma Group has unutilized facilities from banking and financial institutions. In this regard, the directors of the Tianma Company consider that Tianma Group's liquidity risk is significantly reduced and are satisfied that Tianma Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the Unaudited Consolidated Financial Information has been prepared on a going-concern basis.

3. CHANGES IN ACCOUNTING POLICIES

The Tianma Group has adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9") for the first time for the year ended 31 December 2018 and IFRS 16 *Leases* ("IFRS 16") for the first time for the six months ended 30 June 2019.

Other than as explained below regarding the impact of IFRS 15, IFRS 9 and IFRS 16, the adoption of the other new and revised IFRSs has had no significant financial effect on the Unaudited Consolidated Financial Information.

3.1 Impacts and changes in accounting policies of application of IFRS 15

IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations for the annual periods beginning on or after 1 January 2018.

The Tianma Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Tianma Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the unaudited consolidated statement of financial position of Tianma Company at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts at 31 December 2017** *RMB'000*	**Reclassification** *RMB'000*	**Carrying amounts under IFRS 15 at 1 January 2018** *RMB'000*
Current Liabilities				
Trade and other payables	*(a)*	10,356,575	(140,820)	10,215,755
Contract liabilities		–	140,820	140,820

(a) As at 1 January 2018, advances from customers of RMB140,820,000 in respect of consideration for contracts with customers previously included in trade and other payables were reclassified to contract liabilities.

The directors of the Tianma Company assessed that the application of IFRS 15 have no material impact on the timing and amounts of revenue recognised.

The following tables summarise the impacts of applying IFRS 15 on the unaudited consolidated statement of financial position of Tianma Group as at 31 December 2018. There is no impact on the unaudited consolidated statement of profit or loss and other comprehensive income of Tianma Group for the year ended 31 December 2018. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *RMB'000*	**Reclassification** *RMB'000*	**Amounts without application of IFRS 15** *RMB'000*
Current Liabilities			
Trade and other payables	11,679,665	197,050	11,876,715
Contract liabilities	197,050	(197,050)	–

Impact on the consolidated statement of cash flow

	As reported *RMB'000*	**Adjustments** *RMB'000*	**Amounts without application of IFRS 15** *RMB'000*
Operating activities			
Increase in trade and other payables	40,674	56,230	96,904
Increase in contract liabilities	56,230	(56,230)	–

Except as described above, the application of IFRS 15 has had no material impact on the amount reported in the consolidated financial statements of Tianma Group for the year ended 31 December 2018.

3.2 Impacts and changes in accounting policies of application on IFRS 9 and the related amendments

The Tianma Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under expected credit losses model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated earnings and other components of equity, without restating comparative information.

Based on the assessment by the directors of the Tianma Company, there is no material impact of transition to IFRS 9 and the related amendments at the date of initial application, 1 January 2018.

3.3 Impacts and changes in accounting policies of application of IFRS 16

IFRS 16 superseded IAS 17 *Leases* ("IAS 17") and the related interpretations for annual periods beginning on or after 1 January 2019. On transition, the Group has made the following adjustments to the Unaudited Consolidated Financial Information upon application of IFRS 16.

Summary of effects arising from initial application of IFRS 16

As a lessee

As at 1 January 2019, the Tianma Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Tianma Group has applied incremental borrowing rates of the group entities of the Tianma Group at the date of initial application. The weighted average incremental borrowing rates applied by the Tianma group entities range from 0.30% to 4.35%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	44,553
Less: Recognition exemption – short-term leases	(10,500)
	34,053
Lease liabilities relating to operating leases discounted at relevant incremental rates recognised upon application of IFRS 16 as at 1 January 2019	30,980
Analysed as	
Current	14,505
Non-current	16,475
	30,980

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		30,980
Reclassified from land use rights	*(a)*	1,843,635
		1,874,615
By class:		
Land use rights		1,843,635
Buildings		30,980
		1,874,615

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of IFRS 16, land use rights amounting to RMB1,843,635,000 was reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Tianma Group is not required to make any adjustment on transition for leases in which the Tianma Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

(b) Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Tianma Group's unaudited consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(c) Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets. The change had no material impact on the unaudited consolidated financial statements of the Tianma Group for the six months ended 30 June 2019.

(d) Effective on 1 January 2019, the Tianma Group has applied IFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the unaudited consolidated financial statements of the Tianma Group for the six months ended 30 June 2019.

The transition to IFRS 16 had no impact on retained earnings at 1 January 2019.

The following adjustments were made to the amounts recognised in the unaudited consolidated statement of financial position of Tianma Company at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts Previously reported at 31 December 2018**	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
		RMB'000	*RMB'000*	*RMB'000*
Non-current Assets				
Land use rights	*(a)*	1,843,635	(1,843,635)	–
Right-of-use assets		–	1,874,615	1,874,615
Current Liabilities				
Lease liabilities		–	14,505	14,505
Non-current liabilities				
Lease liabilities		–	16,475	16,475

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position of Tianma Group as at 1 January 2019 as disclosed above.

There is no material impact on the unaudited consolidated statement of financial position of Tianma Company as at 30 June 2019 and the unaudited consolidated statement of profit and loss and statement of cash flows for the six months ended 30 June 2019 resulted from the application of IFRS as a lessor.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

UNAUDITED PRO FORMA FINANCIAL INFORMATION IN CONNECTION WITH PROPOSED NON-PUBLIC ISSUANCE OF A SHARES BY TIANMA MICRO-ELECTRONICS CO., LTD. AND DEEMED DISPOSAL OF ITS INTEREST

The following is the illustrative and unaudited pro forma financial information of the AVIC International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") ("Unaudited Pro Forma Financial Information") comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the proposed non-public issuance of A shares by Tianma Micro-electronics Co., Ltd. (the "Tianma Company") and deemed disposal of its interest ("Proposed Non-public Shares Issuance").

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited consolidated financial statements of the Group as at 30 June 2019 and for the period then ended which has been extracted from the published interim report of the Company for the period ended 30 June 2019, as if the Proposed Non-public Shares Issuance had taken place on 30 June 2019 for the unaudited pro forma consolidated statement of financial position, and had taken place on 1 January 2019 for the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information is prepared by assuming the proposed issuance of no more than 409,624,610 new shares of Tianma Company at an issue price of RMB17.82 per share to raise a maximum amount of proceeds of RMB7,300,000,000.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, financial performance and cash flows of the Group had the Proposed Non-public Shares Issuance been completed as at 30 June 2019 or 1 January 2019, whichever is applicable, or at any future date or for any future period.

The Unaudited Pro Forma Financial Information has been prepared in accordance with the accounting policies adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2018 and takes into considerations for those standards effective for the Group's financial period commencing on 1 January 2019.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	The Group as at 30 June 2019	Pro forma adjustment relating to the Proposed Non-Public Shares Issuance		Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 3*	*Note 4*	
ASSETS				
Non-current assets				
Right-of-use assets	2,867,092	–	–	2,867,092
Intangible assets	900,073	–	–	900,073
Property, plant and equipment	34,600,194	–	–	34,600,194
Construction-in-progress	15,855,396	–	–	15,855,396
Investment properties	4,484,469	–	–	4,484,469
Goodwill	620,270	–	–	620,270
Investments accounted for using the equity method	938,437	–	–	938,437
Trade and other receivables	91,335	–	–	91,335
Contract assets	272,334	–	–	272,334
Financial assets at fair value through profit or loss	217,058	–	–	217,058
Deferred income tax assets	744,905	–	–	744,905
Other non-current assets	405,368	–	–	405,368
	61,996,931	–	–	61,996,931
Current assets				
Inventories	8,821,304	–	–	8,821,304
Properties under development	466,029	–	–	466,029
Trade and other receivables	21,597,200	–	–	21,597,200
Contract assets	652,814	–	–	652,814
Financial assets at fair value through profit or loss	7,582	–	–	7,582
Pledged bank deposits	158,288	–	–	158,288
Cash and cash equivalents	10,116,144	7,300,000	(60,437)	17,355,707
	41,819,361	7,300,000	(60,437)	49,058,924
Assets classified as held for sale	4,479,809	–	–	4,479,809
	46,299,170	7,300,000	(60,437)	53,538,733
Total assets	108,296,101	7,300,000	(60,437)	115,535,664
EQUITY				
Capital and reserves attributable to owners of the Company				
Share capital	1,166,162	–	–	1,166,162
Share premium	1,512,380	–	–	1,512,380
Other reserves	2,803,351	314,112	–	3,117,463
Perpetual subordinated convertible securities	2,781,674	–	–	2,781,674
Retained earnings	5,235,945	–	(2,442)	5,233,503
	13,499,512	314,112	(2,442)	13,811,182
Non-controlling interests	25,852,940	6,985,888	(57,995)	32,780,833
Total equity	39,352,452	7,300,000	(60,437)	46,592,015

	The Group as at 30 June 2019	Pro forma adjustment relating to the Proposed Non-Public Shares Issuance		Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 3*	*Note 4*	
LIABILITIES				
Non-current liabilities				
Borrowings	19,603,104	–	–	19,603,104
Deferred income tax liabilities	824,396	–	–	824,396
Deferred income on government grants	1,339,628	–	–	1,339,628
Lease liabilities	236,933	–	–	236,933
Provisions	235,939	–	–	235,939
Trade and other payables	373,971	–	–	373,971
Retirement and other supplemental benefit obligations	412,017	–	–	412,017
Other non-current liabilities	5,030	–	–	5,030
	23,031,018	–	–	23,031,018
Current liabilities				
Trade and other payables	24,036,638	–	–	24,036,638
Contact liabilities	3,727,937	–	–	3,727,937
Lease liabilities	133,522	–	–	133,522
Borrowings	15,494,269	–	–	15,494,269
Current income tax liabilities	232,794	–	–	232,794
Retirement and other supplemental benefit obligations	15,385	–	–	15,385
Other current liabilities	75,000	–	–	75,000
	43,715,545	–	–	43,715,545
Liabilities associated with assets classified as held for sale	2,197,086	–	–	2,197,086
	45,912,631	–	–	45,912,631
Total liabilities	68,943,649	–	–	68,943,649
Total equity and liabilities	108,296,101	7,300,000	(60,437)	115,535,664

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the period ended 30 June 2019	Pro forma adjustment relating to the Non-Public Shares Issuance		Unaudited pro forma consolidated statement of profit or loss of the Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 4*	*Note 5*	
Revenue	26,871,678	–	–	26,871,678
Cost of sales	(22,230,431)	–	–	(22,230,431)
Gross profit	4,641,247	–	–	4,641,247
Other income	624,222	–	–	624,222
Other gains and losses	222,218	–	–	222,218
Impairment losses under expected credit loss model, net of reversal	(172,736)	–	–	(172,736)
Administrative expenses	(1,311,064)	(3,362)	–	(1,314,426)
Research and development expenses	(1,134,028)	–	–	(1,134,028)
Distribution costs	(1,025,670)	–	–	(1,025,670)
Fair value gain on investment properties	1,143	–	–	1,143
Operating profit	1,845,332	(3,362)	–	1,841,970
Finance income	80,761	–	–	80,761
Finance costs	(738,302)	–	–	(738,302)
Finance costs – net	(657,541)	–	–	(657,541)
Share of results of joint ventures and associates	(19,520)	–	–	(19,520)
Profit before income tax	1,168,271	(3,362)	–	1,164,909
Income tax expense	(328,000)	–	–	(328,000)
Profit for the period	840,271	(3,362)	–	836,909
Profit attributable to:				
Owners of the Company	91,576	(2,442)	(16,273)	72,861
Non-controlling interests	748,695	(920)	16,273	764,048
	840,271	(3,362)	–	836,909

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the period ended 30 June 2019	**Pro forma adjustment relating to the Non-Public Shares Issuance**		**Unaudited pro forma consolidated statement of profit or loss of the Group for the period ended 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 4*	*Note 5*	
Profit for the period	840,271	(3,362)	–	836,909
Other comprehensive income:				
Item that will not be reclassified to profit or loss				
Remeasurements of retirement and other supplemental benefit obligations, net of income tax	(701)	–	–	(701)
Item that may be subsequently reclassified to profit or loss				
Currency translation differences	16,865	–	–	16,865
Other comprehensive income for the period	16,164	–	–	16,164
Total comprehensive income for the period, net of income tax	856,435	(3,362)	–	853,073
Attributable to:				
Owners of the Company	101,501	(2,442)	(16,624)	82,435
Non-controlling interests	754,934	(920)	16,624	770,638
Total comprehensive income for the period	856,435	(3,362)	–	853,073

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the Period ended 30 June 2019	Pro forma adjustment relating to the Proposed Non-Public Shares Issuance		Unaudited pro forma consolidated statement of cash flows of the Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 3*	*Note 4*	
Profit before income tax	1,168,271	–	(3,362)	1,164,909
Adjustments for depreciation of property, plant and equipment	1,769,044	–	–	1,769,044
Finance costs – net	738,302	–	–	738,302
Other income – government grant	(470,181)	–	–	(470,181)
Others	107,525	–	–	107,525
Operating cash flows before movements in working capital	3,312,961	–	(3,362)	3,309,599
Increase in trade and other receivables	(2,546,193)	–	–	(2,546,193)
Increase in trade and other payables	1,113,849	–	–	1,113,849
Increase in contract assets	(287,776)	–	–	(287,776)
Increase in contract liability	1,704,878	–	–	1,704,878
Others	(498,479)	–	–	(498,479)
Cash generated from operations	2,799,240	–	(3,362)	2,795,878
Interest paid	(626,338)	–	–	(626,338)
Income tax paid	(455,960)	–	–	(455,960)
Net cash generated from operating activities	1,716,942	–	(3,362)	1,713,580
Investing activities				
Purchase of property, plant and equipment and construction-in-progress	(4,404,831)	–	–	(4,404,831)
Purchase of intangible assets	(27,748)	–	–	(27,748)
Payment for right-of-use assets	(989)	–	–	(989)
Payment for rental deposit	(2,424)	–	–	(2,424)
Payment to purchasing of financial assets at fair value through profit or loss	(6,641)	–	–	(6,641)
Proceeds from disposals of property, plant and equipment	22,671	–	–	22,671
Proceeds from disposals of intangible assets	3,804	–	–	3,804
Proceeds from disposals of investments in associates	241,719	–	–	241,719
Government grants received	156,015	–	–	156,015
Interest received	91,300	–	–	91,300
Loans to related parties	(240,346)	–	–	(240,346)
Repayments of loan from related parties	187,187	–	–	187,187
Dividends received	70,040	–	–	70,040
Net cash used in investing activities	(3,910,243)	–	–	(3,910,243)

	The Group for the Period ended 30 June 2019	Pro forma adjustment relating to the Proposed Non-Public Shares Issuance		Unaudited pro forma consolidated statement of cash flows of the Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 2	*Note 3*	*Note 4*	
Financing activities				
Deemed acquisition of additional interests in a subsidiary	(14,302)	–	–	(14,302)
Proceeds from borrowings	8,711,602	–	–	8,711,602
Repayments of borrowings	(5,495,450)	–	–	(5,495,450)
Proceed from issue of a subsidiaries' shares for share awards granted	148,422	–	–	148,422
Borrowings from related parties	1,317,763	–	–	1,317,763
Repayments of borrowings to related parties	(694,964)	–	–	(694,964)
Repayment of lease liabilities	(55,748)	–	–	(55,748)
Dividends paid to non-controlling interests of subsidiaries	(196,116)	–	–	(196,116)
Proceeds from the Proposed Non-public Shares Issuance	–	7,300,000	–	7,300,000
Transaction cost directly attributable to the Proposed Non-public Shares Issuance	–	–	(57,075)	(57,075)
Net cash generated from financing activities	3,721,207	7,300,000	(57,075)	10,964,132
Net increase in cash and cash equivalents	1,527,906	7,300,000	(60,437)	8,767,469
Cash and cash equivalents at beginning of period	8,526,106	–	–	8,526,106
Effects of exchange rate changes on cash and cash equivalents	73,654	–	–	73,654
Cash and cash equivalents at end of period	10,127,666	7,300,000	(60,437)	17,367,229
Represented by:				
Cash and cash equivalents	10,116,144	7,300,000	(60,437)	17,355,707
Cash and cash equivalents classified as held for sale	11,522	–	–	11,522
	10,127,666	7,300,000	(60,437)	17,367,229

NOTES TO THE UNAUDITED PRO FORMA INFORMATION

1. Upon completion of the Proposed Non-public Shares Issuance, the equity interests in Tianma Company held by the Group will be further diluted from 16.02% to 13.35%.

   Despite the fact that the Group only holds 16.02% equity interests in Tianma Company, historically the Group has been able to exercise de facto control over Tianma Company taken into account an agreement entered among the Company, AVIC International Holding Corporation ("AVIC International"), the immediate holding of the Company, and AVIC International Shenzhen Company Limited ("AVIC Shenzhen"), the major Shareholder of the Company since January 2014 that AVIC International and AVIC Shenzhen agreed to follow the votes with the Company in Tianma Company's shareholders' meetings. Taken into account the potential dilution of the Group's equity interests in Tianma Company as a result of the Proposed Non-public Shares Issuance, the Group has entered into an agreement with Hubei Changjiang Tianma Fixed Investment Fund Partnership (Limited Partnership) ("Changjiang Fund"), one of the subscribers of the Proposed Non-public Shares Issuance and an independent third party of Tianma Company. The agreement stated that Changjiang Fund agreed to follow the votes with the Company in Tianma Company's shareholders' meetings for three years from the completion of the Proposed Non-public Shares Issuance in order to retain its voting power and de facto control over Tianma Company.

   De facto control is based on relative rights of different parties without contractual arrangements, their historical behavior pattern and all other relevant facts and circumstances, and it may vary depending on the relevant facts and circumstances at the time of determination and acts of other parties without contractual arrangements which may change from time to time. However, based on observation of past meeting attendance and voting pattern of non-controlling shareholders of Tianma Company, the Group has been able to exercise de facto control over Tianma Company and believes it can continue to do so after the completion of Proposed Non-public Shares Issuance assuming (i) there are no major changes in the behavior pattern of the existing non-controlling shareholders of Tianma Company, and (ii) new shareholders of Tianma Company as a result of the Proposed Non-public Shares Issuance together with certain other major existing non-controlling shareholders would not act against the Group at the same time, when it exercises de facto control over Tianma Company.

   The Group will continue to assess whether the Group can maintain de facto control over Tianma Company, monitor closely the non-controlling interest composition of Tianma Company, and take appropriate actions to maintain de facto control over Tianma Company.

   As a result, The Group accounted for the dilution of equity interests in Tianma Company from 16.02% to 13.35% caused by the Proposed Non-public Shares Issuance as equity transactions.

2. The unadjusted unaudited consolidated statement of financial position of the Group as at 30 June 2019, the unadjusted unaudited consolidated statement of profit or loss, the unadjusted unaudited consolidated statement of profit or loss and other comprehensive income and the unadjusted audited consolidated statement of cash flows of the Group for the period ended 30 June 2019 are extracted from the published interim report of the Group for the period ended 30 June 2019.

3. Recognition of other reserves and non-controlling interests amounting to RMB314,112,000 and RMB6,985,888,000 respectively, as the Group's equity interests in Tianma Company would have been diluted from 16.02% to 13.35% after the completion of the Proposed Non-public Shares Issuance.

   The adjustment of other reserve of RMB314,112,000 is measured as the excess of (i) over (ii) below:

   (i) the proceeds of the Proposed Non-public Shares Issuance by Tianma Company for raising a maximum amount of proceeds of RMB7,300,000,000.

(ii) the increase of non-controlling interests of the Group of RMB6,985,888,000 as stated below.

The recognition of non-controlling interests amounting to RMB6,985,888,000 is calculated as follows:

		RMB'000
Net assets attributable to owners of Tianma Company before the Proposed Non-public Shares Issuance (excluding the impact of estimated transaction costs and related expenses in relation to the Proposed Non-public Shares Issuance) as at 30 June 2019 (note a)		26,622,233
Dilution of the Group's equity interests in Tianma Company from 16.02% to 13.35% arising from the Proposed Non-public Shares Issuance		2.67%
Dilution of the non-controlling interests	A	710,814
Cash to be received		7,300,000
Estimated transaction costs of Tianma Company related to the Proposed Non-public Shares Issuance		(58,137)
		7,241,863
The equity interests of Tianma Company's non-controlling shareholders after completion of the Proposed Non-public Shares Issuance (note b)		86.65%
	B	6,275,074
Effect on non-controlling interests	C=A+B	6,985,888

Notes:

(a) The amount of net assets attributable to owners of Tianma Company before the Proposed Non-Public Shares Issuance of RMB26,622,233,000 was extracted from the unaudited consolidated statement of financial position of the Tianma Company as at 30 June 2019, set out in the unaudited consolidated financial information of Tianma Company included in Appendix II to this circular.

(b) Upon completion of the Proposed Non-public Shares Issuance, the equity interests in Tianma Company held by the Group and the non-controlling shareholders will be 13.35% and 86.65%, respectively.

4. The transaction costs and related expenses in relation to the Proposed Non-public Shares Issuance amounted to RMB60,437,000, include:

(i) estimated related expenses in relation to the Proposed Non-public Shares Issuance incurred by the Company for compliance of the requirement of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Related Expenses") amounting to RMB2,300,000 was charged to administrative expenses of the Company, which mainly represents auditor's remuneration fee and legal fee directly attributable to the Proposed Non-public Shares Issuance.

(ii) estimated transaction costs incurred by Tianma Company amounting to RMB58,137,000, which including sponsor fee amounting to RMB57,075,000 was deducted from Tianma Company's shares premium and legal fee amounting to RMB1,062,000 was charged to administrative expenses of Tianma Company.

The decrease of retained earnings of the Company of RMB2,442,000 is calculated as below:

		RMB'000
Related Expenses incurred by the Company directly attributable to the Proposed Non-public Shares Issuance	D	(2,300)
Legal fee incurred by Tianma Company directly attributable to the Proposed Non-public Shares Issuance		(1,062)
The equity interests of Tianma Company held by the Group after completion of the Proposed Non-public Shares Issuance		13.35%
	E	(142)
Effect on retained earnings as at 1 January 2019	F=D+E	(2,442)

The decrease of non-controlling interests of the Group of RMB57,995,000 is calculated as below:

		RMB'000
Sponsor fee incurred by Tianma Company directly attributable to the Proposed Non-public Shares Issuance	G	(57,075)
Legal fee incurred by Tianma Company directly attributable to the Proposed Non-public Shares Issuance		(1,062)
The equity interests of Tianma Company held by non-controlling shareholders after completion of the Proposed Non-public Shares Issuance		86.65%
	H	(920)
	I=G+H	(57,995)

5. Recognition of profit and other comprehensive income for the period ended 30 June 2019 attributable to non-controlling interests of Tianma Company as the Company's equity interest in Tianma Company was diluted from 16.02% to 13.35% as a result of the Proposed Non-public Shares Issuance, being calculated as follows:

		RMB'000
Profits for the period ended 30 June 2019 attributable to owners of Tianma Company before the Proposed Non-public Shares Issuance	J	609,474
Dilution of the Group's equity interests in Tianma Company from 16.02% to 13.35% arising from the Proposed Non-public Shares Issuance	K	2.67%
Profits of Tianma Company re-allocated 2.67% to non-controlling interests of the Company	L=J*K	16,273

		RMB'000
Other comprehensive income for the period ended 30 June 2019 attributable to owners of Tianma Company before the Proposed Non-public Shares Issuance	M	13,150
Dilution of the Group's equity interests in Tianma Company from 16.02% to 13.35% arising from the Proposed Non-public Shares Issuance	N	2.67%
Other comprehensive income of Tianma Company re-allocated 2.67% to non-controlling interests of the Company	O=M*N	351

6. The proceeds illustrated above is based on the Proposed Non-public Shares Issuance by Tianma Company for raising a maximum amount of proceeds of RMB7,300,000,000 with an issue price of RMB17.82 per share. The final proceeds upon completion of the Proposed Shares Issuance may be different from the amount presented here and the differences may be significant.

7. Apart from the above, no other adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 1 January 2019. In particular, the Unaudited Pro Forma Financial Information has not taken into account the completion of other transaction other than the transactions by the Group pursuant to this circular.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF AVIC INTERNATIONAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AVIC International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2019, the unaudited pro forma statement of profit or loss, the unaudited pro forma statement of profit or loss and other comprehensive income for the period ended 30 June 2019, the unaudited pro forma statement of cash flows for the period ended 30 June 2019 and related notes as set out on pages 47 to 57 of the circular issued by the Company dated 25 October 2019 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 47 to 57 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed non-public issuance of A shares by Tianma Micro-electronics Co., Ltd. ("Tianma Company") and deemed disposal of its interest ("Proposed Non-public Shares Issuance") on the Group's financial position as at 30 June 2019 and the Group's financial performance and cash flows for the period ended 30 June 2019 as if the Proposed Non-public Shares Issuance had taken place at 30 June 2019 and 1 January 2019 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's condensed consolidated financial statements for the period ended 30 June 2019, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 25 October 2019

The following is the management discussion and analysis on the Company for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019. The financial information of the Company is based on the accountants' report of the Company as set out in the 2016, 2017 and 2018 annual reports of the Company and the unaudited financial information of the Company as set out in the 2019 interim report .

The Company is a company established in the PRC and the H share of which are listed on the Stock Exchange. The Company is an investment holding company incorporated in the PRC. The Group, through each of its subsidiaries, is principally engaged in the manufacturing and sales of flat panel displays and modules, printed circuit boards and watches, EPC projects, shipping business and trade and logistic business.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2016

Business review

2016 was a year when global macro-economy had been experiencing a complex situation along with greater uncertainties, severe fluctuation and frequent geo-political risks, and the economic recovery had been running slowly while domestic economy was under increasing downward pressure. The efficient market demands continued with a lingering weakness. Facing the severe economic situation both in People's Republic of China (the "PRC" or "China") and abroad, the Group had been pushing the supply-side structural reform forward proactively which was in line with China's overall strategies with strategic theme of "Reform and Innovation, Reinforcing execution and Focusing on Value Growth", firmly establishing strategic transformation, accelerating the adjustment of business structure and industry upgrading and speeding up the innovation of commercial models and mechanism reform. The efficiency and effectiveness of some business operation had been significantly improved.

During the year ended 31 December 2016, the Group recorded a consolidated revenue of approximately RMB33,007,917,000, representing a decrease of approximately 5.75% over the previous year of approximately RMB35,021,139,000 (including the revenue of the discontinued operations). The profit after taxation was approximately RMB1,287,972,000, representing a decrease of approximately 23.49% as compared with approximately RMB1,683,491,000 of last year.

High-tech Electronic Products

As for the business of high-tech electronic products, the Group engages in research and development (R&D), design, production, sales and service of FPD and PCB products mainly through its subsidiaries, such as Tian Ma Microelectronics Company Limited (天馬微電子股份有限公司 ("Tianma" or "Tianma Company") and Shennan Circuit Co., Ltd. (深南電路股份有限公司) ("SCC"). The business of high-tech electronic products of the year has seized the market opportunities to reinforce the precise operation continuously and strive to improve the operating profits. During the year ended 31 December 2016, the Group's turnover generated from high-tech electronic products section was approximately RMB15,094,917,000, representing an increase of 9.16% as compared with the same period of last year, and the profit after taxation was approximately RMB871,209,000, representing an increase of 20.80% as compared with the same period of last year.

(1) FPD

Tianma focuses on the display business and its products include small-to-medium size flat panel displays (FPD) and display modules, which is mainly applied in professional areas including e-commerce, industrial control and medical treatment. Meanwhile, we are also engaged in the new display markets of 3D light-emitting diode (發光二極體) monitors and intelligent wearable devices proactively.

During the relevant financial reporting period (the "Reporting Period"), Tianma continued to optimize its product structure and rapidly increased the product proportion of medium-and-high end smartphones. The display monitor sales for professional areas, such as automotive and medical treatment, have experienced a rapid growth, while the intelligent wearable devices had been put into mass production successfully. The research and develpment ("R&D") of key technologies and core products has made a smooth progress. Low temperature polycrystalline silicon (低溫多晶硅) ("LTPS") in-cell and active matrix organic light emitting diode (主動矩陣有機發光二極管面板) ("AMOLED") have achieved its mass production while we have completed the development of flexible technology platform. The customer structure continued its optimization and the ratio of high marginal customers and large customers continued to increase. The main factory of product line project of the Wuhan 6th generation of AMOLED has reached its caps in advance, which created the quickest construction in the industry. Tianma has proactively promoted the share issuance for asset acquisitions and fund-raising.

In 2016, the advanced technologies of Tianma have been named with national awards in the industry, which boosted our brand popularity in the capital market and marked our solid leading position in the industry.

(2) PCB

SCC mainly engages in producing PCB products which comprise the R&D, manufacture and sales of middle-to-high end multi-layer PCB products and packaging substrate. They are mainly used in high technology fields such as telecommunication, aeronautics and astronautics, medical services and industrial control.

During the Reporting Period, SCC has grasped the opportunities in the industry to focus on the markets with quality customers and emphasised on developing key customers and reinforced the precise operation continuously to reach a historic height in its operating results. PCB business segment maintained a stable delivery with high production. During the year of 2016, we have focused on the professional markets including mass telecommunication, motor vehicles, servers, optical connection, avionics, rigid-flex and thick copper. The purchase orders in the market have significantly increased. The productivity of Wuxi factory has successfully made a large climb. The optimisation of purchase order structure and production line of electric fitting business has achieved with significant efficiency. The output values of telecommunication and medical treatment increased rapidly and profit margin continues to increase. The customer exploration of packaging substrate business was in a proactive progress with a gradual shift to semi-conductor supply chain, and it has engaged with the leading customers in MIC area.

In 2016, SCC has continued to promote the spin-off and IPO in the Shenzhen Stock Exchange of the PRC. It completed the examination for approval by The Stock Exchange of Hong Kong Limited and SASAC, and submitted the filing information to CSRC.

Retails and Consumer Products

The retails and consumer products section of the Group engages in the R&D and brand operation of middle to high-end watches and chain sales of prestigious watches through its subsidiary, Fiyta. For the year ended 31 December 2016, the turnover generated from the retail and consumer products section of the Group amounted to approximately RMB2,965,074,000, representing a decrease of approximately 4.85%, as compared with the same period of last year. The profit after taxation was approximately RMB191,321,000, representing an increase of 26.37% as compared with the same period of last year.

In 2016, the high-end consumption in China continued its depression. Fiyta Holdings Limited (飛亞達(集團)股份有限公司) ("**Fiyta**") has proactively promoted the innovation of commercial model, accelerated the production and channel optimisation and alternation. The distribution channel sales of Fiyta's watch have increased in proportion while the amounts of overseas internet spots and selling scale have achieved a rapid growth. Harmony continued to promote the improvements of channel structure and product structure, while devoting great effort on upgrading the sales efficiency in single store. Fiyta have strived to promote the online-and-offline integration by setting e-commerce and technical service business as our breakthrough point, which continued to make a vigorous growth in e-commerce business. During the year ended 31 December 2016, Fiyta has entered into exclusive authorisation agreement with Beijing Watch Factory Company Limited (北京手錶廠有限公司) ("Beijing Watch") and accelerated the coordinated development with Beijing Watch.

Real Estate and its investments

The Group engages in real estate development business through its subsidiaries Chengdu Raise and Beijing Ruixin, and engages in overseas engineering contracting and overseas real estate business through Engineering Company. During the year of 2016, the real estate business section of the Group recorded a turnover of approximately RMB3,544,146,000, representing a decrease of approximately 0.52% as compared with the same period of the previous year. The profit after taxation was approximately RMB21,011,000, representing a decrease of approximately 95.45% as compared with the same period of the previous year. Profit after taxation comprises losses on investments from the jointly controlled entity and the associate, AVIC Vanke Company Limited (中航萬科有限公司) ("**AVIC Vanke**") and AVIC Real Estate Company Limited (中航地產股份有限公司) ("**AVIC Real Estate**") of approximately RMB222,154,000 in total. For details regarding investments in AVIC Vanke and AVIC Real Estate, please refer to Note 14 to the financial statements contained in the 2016 annual report. The Group will promote destocking in real estate in China.

(1) Real Estate Development

The domestic real estate development projects of the Group are mainly involved in commercial complexes in small to medium cities. In 2016, Chengdu Raise and Beijing AVIC Ruixin Investment and Management Company Limited (北京中航瑞信投資管理有限責任公司) (the "Beijing Ruixin") have accelerated the project developments and sales payment return, in which businesses have made a smooth progress.

(2) Engineering Contracting

The engineering contracting business of the Group mainly comprises contracting of international and domestic construction projects, which accelerated the shifting of overseas aviation infrastructure construction and services. For the year ended 31 December 2016, the engineering contracting projects of the Group have continued to maintain a positive momentum in development. The Group entered into 32 contracts with a total contract sum of approximately RMB5.4 billion. Engineering Company has put a large effort on upgrading the professionalism of aviation infrastructure construction business and project expansion. There were 2 newly-executed aviation projects, and the Hangar Project in Ethiopia (埃塞俄比亞機庫項目) has been successfully completed for delivery.

Trading and Logistics

The Group engages in mechatronics engineering, ship engineering, tendering agency and energy management through its subsidiaries such as AVIC International Beijing Company Limited (中國航空技術北京有限公司) ("Beijing Company"), AVIC International Maritime Holdings Limited (中航國際船舶控股有限公司) ("AVIC Maritime"), Weihai Shipyard, Guangzhou Company, Xiamen Company, TED Company and RED Company. For the year ended 31 December 2016, the Group's turnover generated from trading and logistics business was approximately RMB10,745,852,000, representing a decrease of approximately 18.83% compared with the previous year. The profit after taxation for the year was approximately RMB29,685,000, and the loss after taxation for 2015 was approximately RMB22,017,000.

(1) Ship Engineering

In 2016, the ship engineering business of the Group accelerated the optimisation of product structure, reinforced the control on cost expenditure, which have made a significant improvement in operating results. During the year of 2016, 23 new ships were signed, among which, 15 ships were in effect. Orders on hand accumulated to 50 ships. We were also awarded with contracts of high-end roll-on/roll-off passenger ("Ro-Pax") ships consecutively, which optimised the order structure significantly. We have firmly promoted the optimisation of technological processes, upgrading of supply chain management and precise production and further consolidate the business agreement with Deltamarin Oy. The Group has completed delivery of 25 ships during the year of 2016, which ensure delivery on schedule of projects on hand.

(2) Mechatronics Engineering

The mechatronics engineering business of the Group mainly engages in engineering, procurement and construction (EPC) of fundamental facilities in and outside China, such as cement, petroleum, electricity stations and bitumen. In 2016, the mechatronics engineering business of the Group strengthened project exploration and execution, deepened the promotion of innovation in commercial model and continued to enhance the professional capabilities of EPC business. The first project in Venezuela and project in Malaysia of the mechatronics engineering business have been delivered. The second project in Venezuela has been progressing under orders. The Group have cultivated the markets of countries under the "the Belt and Road" deeply, which has continued to increase our brand influence. The bitumen business has put a large effort in handling the adverse impact of price depression in bulk consumer goods, such as petrol. We have strived to improve our raw material supply of bitumen. Both expansion of modified bitumen species and project delivery have achieved a proactive progress.

BUSINESS PROSPECTS

In 2017, the global economy will be positioned to a re-adjustment of balancing and the economy in China will have greater downward pressure. Facing various external and internal adverse factors and challenges, the Group will deeply promote the strategic transformation, speed up the business consolidation and setting of core businesses, continue the optimisation of business structure and resource deployment with reformation and innovation as our motivation, improve management structure and system progress organisation, continue to promote innovation of commercial model and reformation of systems and mechanisms, enhance the profit management and value creation, strengthen the problem-solving and risk prevention and control, accelerate the connection of capital markets and pursue the value growth.

High-tech Electronic Products

(1) FPD

Smart home devices driven by "Internet +" and the technology of wearable devices have become a trend of mobile smart terminal sector. The technology of internet has driven the continuous growth of demand for professional display sectors, such as automotive display, medical display, smart house and intelligent industries. The growing trend of large screen, high resolution and integration of touch screen has become the next focus point of growth. In 2017, Tianma will grasp the market opportunities, deeply cultivate the mobile smart terminal and professional display market, optimise the product structure and customer structure, enhance the development of strategic customers, accelerate the R&D and mass production of key technology and focused products, such as IN-CELL and AMOLED, match the markets with technology optimisation production lines. We will emphasise the emerging strategic markets to expand our integrated modules and speed up the upgrading of overall capabilities of solutions. We will continue to promote the construction of the Wuhan 6th generation of AMOLED and strive to complete the reorganisation of material assets and related financing.

(2) PCB

The PCB business of the Group will focus on the theme of "grab the market, enhance the technology and optimise the operation" as strategies to continue the expansion of shares in core markets, such as telecommunication and medical industry control. We will accelerate to enter into new markets of automotive electronics and optical connection. The Group will maintain the strategy of large customers, deepen the strategic cooperation with international leading customers and vigorously develop the new strategic customers with high growth capabilities. We will keep close to the market hotspots and customers' demands and accelerate the promotion of new products and new project development. We will maintain our technological leading path, integrate our core technological capabilities and create an integrated cross-sector modules and products. We will continue to promote the construction of professional product lines, upgrade our product technological capabilities and will orderly promote the smart production. In 2017, SCC will promote the project of Nantong infrastructure construction orderly and accelerate the progress IPO in Shenzhen Stock Exchange of the PRC.

Retails and Consumer Products

The retails and consumer products business of the Group will maintain a business model of "Products + Channels" to speed up the output growth of single stores and structure optimisation of products and channels, so as to further increase our domestic market share and promote our internationalisation development orderly. We will deeply promote the innovation establishment of commercial models, speed up the business development of e-commerce and technological services. We will reinforce the synergies between channels and brand, as well as supporting platform and first-tier websites and strengthen the building of synergies.

Real Estate

(1) Real Estate Development

It is expected that the real estate industry will experience greater destocking pressure in 2017. The real estate business of the Group will put a large effort on promotion of destocking in real estate in China and overseas and sales payment return, while striving to launch the business reorganisation of real estate development.

(2) Engineering Contracting

It is expected that the Group will grasp the market opportunities in the key regions under the "Belt and Road" and African region and speed up the project expansion and execution of international engineering construction projects, in particular the aviation infrastructure projects, in 2017. We will integrate the social resources, speed up the improvement of professional abilities in design consultation of aviation infrastructure, facility construction and operation and maintenance. We will reinforce the project execution and control, promote precise management and cost and risk control, ensure the delivery on schedule and accelerate the expansion of space for profit making.

Trading and Logistics

The trading and logistics business will focus on the core markets and key businesses, leverage our channeling advantages and business experience to speed up our development of professionalism.

(1) Ship Engineering

The ship engineering business of the Group will continue to optimise its product structure and increase the pace of obtaining purchase orders with high additional values and high technology. We will upgrade our key technological capabilities and consolidate the corporation with Detlamarin Oy to contribute for the synergies of R&D and design. We will upgrade the management of supply chain, management of self-owned shipyards and manufacturing capability, strengthen the single-ship operational cost control, ensure the delivery of ships on schedule and continuously make advancements for our result improvement.

(2) Mechatronics Engineering

The mechatronics engineering business of the Group will focus on the core industries and core regions, deeply promote the individual market researches, and speed up the project expansion and execution, as well as the upgrading of professionalism. We will further explore the optimised mode of business development, accelerate the business transformation and put full effort to boost our operating results.

CAPITAL STRUCTURE

	2016	**2015**
	(RMB'000)	*(RMB'000)*
Total borrowings	18,589,087	20,453,756
Total liabilities	39,414,224	40,284,992
Non-controlling interests	13,327,266	12,801,353
Equity attributable to owners of the Company	12,039,247	11,539,763
Total assets	64,780,737	64,626,108
Borrowings to equity ratio*	73.28%	84.03%
Liabilities to equity ratio*	155.38%	165.50%

* Borrowings to equity ratio = Total borrowings at the end of the year/Total equity of the Company at the end of the year

* Liabilities to equity ratio = Total liabilities at the end of the year/Total equity of the Company at the end of the year

LIQUIDITY AND CAPITAL RESOURCES

The Group adopts a sound treasury policy in cash and debt management. The management of the Group focuses on securing cash flow security, providing efficiency in the use of funds, preventing financial risks and ensuring the business development based on the strategic needs of the Company.

As at 31 December 2016, the cash and cash equivalents of the Group amounted to approximately RMB9,020,381,000 (2015: RMB11,780,904,000), which were mainly derived from the following sources:

- Cash and bank deposits at the beginning of the year;
- Bank loans, borrowings from related parties; and
- Revenue from operations.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2016	**2015**
	RMB'000	*RMB'000*
RMB	3,369,782	7,687,717
USD	4,068,632	2,358,698
LKR	513,379	334,070
EUR	451,924	655,104
JPY	226,785	245,313
INR	206,277	334,070
AED	37,491	43,248
HKD	31,396	12,598
Others	114,715	110,086
	9,020,381	11,780,904

As at 31 December 2016, the total borrowings of the Group amounted to approximately RMB18,589,087,000 (For the year of 2015: RMB20,453,756,000) with annual interest rate ranging from 0% to 6.44% (For the year of 2015: 0% to 10%), of which the current borrowings amounted to approximately RMB9,608,905,000 (For the year of 2015: RMB10,150,809,000) and the noncurrent borrowings amounted to RMB8,980,182,000 (For the year of 2015: RMB10,302,947,000). The total borrowings at fixed rates of the Group amounted to RMB7,098,063,000 (For the year of 2015: RMB9,849,909,000).

The carrying amounts of the borrowings are denominated in the following currencies:

	2016 *RMB'000*	2015 *RMB'000*
RMB	13,419,771	14,339,558
USD	2,720,541	2,529,718
EUR	1,712,935	1,596,420
SGD	215,996	206,483
HKD	140,438	301,206
JPY	9,276	14,766
CHF	5,439	5,442
	18,224,396	18,993,593

During the year ended 31 December 2016, the capital expenditure of the Group amounted to approximately RMB4,180,735,000, the details of which are set forth below:

Company Name	Project Name	2016 Amount *(RMB'000)*
Tianma	6th generation line investment project of Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司), Shanghai Tianma 4.5th generation line of technology modification project, 5th generation line of technology modification project of Shanghai AVIC Opto-electronics Limited (上海中航光電子有限公司) and NLT production line of technology modification project, etc.	3,033,750
SCC	No. 8 Building investment, project of research and development and technological transformation and the project of Wuxi Shennan Base	390,587
Shenzhen Aero Fasteners MFG Company Limited ("AFM Company")	Phase I construction project and Phase II plant project of AFM Company	189,508

Company Name	Project Name	2016 Amount *(RMB'000)*
Fiyta	Timepiece industrial base in Guang Ming New District	125,695
AVIC International Beijing Company Limited ("Beijing Company")	Yizhuang Aviation City Project	81,642
China National Aero-Technology Guangzhou Company Limited ("Guangzhou Company")	Purchase of fixed assets of bitumen base	69,760
AVIC International Xiamen Company Limited ("Xiamen Company")	Project on office building of Xiamen Zijin AVIC Real Estate Company Limited	58,326
China National Aero-Technology International Engineering Corporation ("Engineering Company")	Hotel company project of AVIC International in Sri Lanka and acquisition of equity interest in Kenya Rivers	6,742
AVIC International Renewable Energy Development Co., Ltd. ("RED Company")	New energy and energy-saving projects in various places	17,416
AVIC Weihai Shipyard Co., Ltd. ("Weihai Shipyard")	Investment of breakwater, loading facilities and other fixed assets	207,309
	Total	4,180,735

LIQUIDITY AND CAPITAL RESOURCES

It is expected that the capital expenditure of the Group for the year ending 31 December 2017 amounted to RMB7,685,972,000, details of which are set forth as follows:

Company Name	Project Name	2017 Amount *(RMB'000)*
Tianma	6th generation line investment project of Wuhan Tian Ma, technology modification project of generation line and purchase project of fixed assets	6,887,670
SCC	Research and development project, technology modification project and project of Nantong infrastructure construction and Wuxi Shennan infrastructure construction	578,452
AFM Company	Phase I construction project and Phase II plant project, and purchase of fixed assets	87,150
Fiyta	Timepiece industrial base in Guang Ming New District	30,000
Beijing Company	Installation of cement equipment, project of Humboldt China Design Institute, expansion of East-African Operation Center and investment projects in Cuba and Gambia	30,000
Guangzhou Company	Construction and maintenance of bitumen storage project	72,700
	Total	7,685,972

PLEDGED ASSETS

As at 31 December 2016, the pledged assets of the Group amounted to approximately RMB1,343,014,000, details of which are set forth below:

	2016 *RMB'000*	2015 *RMB'000*
Buildings	942,810	563,446
Investment properties	–	932,440
Construction-in-progress	–	879,240
Land use rights	200,327	521,660
Trade and other receivables	199,877	–
	1,343,014	2,896,786

DEBT RATIO

The Group's borrowings to shareholders' equity ratio (the ratio of total borrowings to shareholders' equity) were 73.28% (2015: 84.03%), whilst the liabilities to shareholders' equity ratio (the ratio of total liabilities to shareholders' equity) were 155.38% (2015: 165.50%) for the Year.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the year ended 31 December 2016, the Company did not have entrusted deposit and overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Group had approximately 38,406 employees (2015: 40,480) with employee-related costs of approximately RMB4,031,585,000 (2015: RMB3,865,196,000). The Group formulated its competitive remuneration policy based on market condition and individual employee's performance.

FOREIGN EXCHANGE RISK

The Group may be subject to fluctuations of foreign exchange rates, but it has no material foreign exchange risk as the Group's products are mainly distributed in domestic market and its export business is mainly settled in US dollar, Euro or HK dollar. The Group uses appropriate derivative financial instruments to hedge certain risk exposures.

FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2016, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's Relationship with the Group	Outstanding Amounts guaranteed
				RMB'000
Beijing Company	Subsidiary of the Group	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third Party	347,040
Beijing Company	Subsidiary of the Group	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	11,710
Tianma	Subsidiary of the Group	Shanghai Tianma Organic Light-Emitting Technology Company Limited* (上海天馬有機發光顯示技術有限公司)	Associate	682,572
Xiamen Company	Subsidiary of the Group	Xiamen Tianma Microelectronics Company Limited* (廈門天馬微電子有限公司)	The guarantor holds 6% equity interests in the guarantee	176,000
TED Company	Subsidiary of the Group	AVIC Wangxin Company Limited* (中航網信(北京)科技有限公司)	Associate	25,000
Engineering Company	Subsidiary of the Group	AVIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	127,400

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's Relationship with the Group	Outstanding Amounts guaranteed *RMB'000*
The Company	Holding Company	Shenzhen AVIC Resources Co., Ltd.* (深圳中航資源有限公司)	Fellow subsidiaries	714,000
The Company	Holding Company	Qinghai AVIC Resources Co., Ltd.* (青海中航資源有限公司)	Fellow subsidiaries	475,470
The Company	Holding Company	Kunming AVIC Phosphorus Chemical Co., Ltd. * (昆明市中航磷化工有限公司)	Fellow subsidiaries	34,000
The Company	Holding Company	Yunnan Hongfu Fertilizer Co., Ltd.* (雲南紅富化肥有限公司)	Fellow subsidiaries	6,430
The Company	Holding Company	Qinghai AVIC Silicon Material Co.,Ltd* (青海中航矽材料有限公司)	Fellow subsidiaries	23,344
				2,622,966

* The English names of these companies are management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction – Provision of Guarantee

On 8 March 2016, Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) ("Shanghai Tianma") (an indirect non-wholly owned subsidiary of the Company) entered into the guarantee agreement with Agricultural Bank of China Limited Shanghai Chuansha Sub-branch (中國農業銀行股份有限公司上海川沙支行) (the "Bank"), pursuant to which Shanghai Tianma guaranteed to pay an aggregate amount of not exceeding RMB40,000,000 in respect of the debt with an aggregate amount of not exceeding RMB100,000,000 applied to the Bank by Shanghai Tianma Organic Light-Emitting Technology Company Limited (上海天馬有機發光顯示技術有限公司) ("Tianma Technology Company") (the "Debt") in accordance with proportion of Shanghai Tianma's shareholding in Tianma Technology Company for settling the guaranteed liabilities. The term shall be two years commencing from the expiry date of the Debt (the "Provision of Guarantee").

Tianma Technology Company is owned as to 40%, 20% and 40% by Shanghai Tianma, Shanghai Zhang Jiang (Group) Co., Ltd. (上海張江(集團)有限公司) and Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) respectively. As the applicable percentage ratios under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to the Provision of Guarantee, when aggregated with the guarantee provided by Shanghai Tianma in favour of a bank on 19 March 2015 in relation to the debt of Tianma Technology Company (details of which are set out in the announcement of the Company dated 19 March 2015), are more than 5% but less than 25%, the transactions contemplated under the Provision of Guarantee constitute a discloseable transaction of the Company. For details, please refer to the announcement of the Company dated 8 March 2016.

2. Proposed spin-off and separate listing of Shennan Circuits Co., Ltd ("Shennan Circuits") on the Shenzhen Stock Exchange of the PRC (the "Shenzhen Stock Exchange") and possible major disposal for the Company

On 13 May 2016, the Board issued an announcement in relation to possible spin-off and separate listing of Shennan Circuits, a subsidiary of the Company which is mainly engaged in the PCB business, on the Shenzhen Stock Exchange (the "Proposed Spin-off"). It is proposed that Shennan Circuits will offer not more than 70,000,000 shares (the "Offer Shares"), including new shares to be issued by Shennan Circuits and up to 35,000,000 existing shares to be sold by the Company. The indicative offer price of the A shares of Shennan Circuits is expected to be RMB32.86 per A share and the expected maximum proceeds raised from the proposed A share listing of Shenan Circuits will be RMB2,300,000,000. The offer price per A share of Shennan Circuits will depend on the domestic market condition of China at the time of the proposed A share listing with reference to the quotation from target subscribers or determined otherwise as agreed between Shennan Circuits and the lead underwriter. The Board expected that the Company will have an interest of not less than 50% in Shennan Circuits upon the completion of the Proposed Spin-off and proposed A share listing, Shennan Circuits will thus remain as a non-wholly owned subsidiary of the Company. The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2016. Please refer to the announcements of the Company issued on

10 April 2015 and 13 May 2016, the poll results announcement of the extraordinary general meeting of the Company dated 26 July 2016 and the circular despatched by the Company dated 21 June 2016, respectively, for more details.

3. Discloseable Transaction – Construction Framework Agreements

On 7 September 2016, Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司) ("Wuhan Tianma") and China Twentieth Metallurgical Group Corporation Limited (中國二十冶集團有限公司) ("China Twentieth Metallurgical Group") entered into the construction framework agreement (the "Twentieth Metallurgical Group Construction Framework Agreement"), pursuant to which the parties agreed to collaborate in relation to the Twentieth Metallurgical Group Project according to the terms set out therein. The term of the Twentieth Metallurgical Group Cooperation commenced from the date of the Twentieth Metallurgical Group Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB250,000,000.

On 7 September 2016, Wuhan Tianma and Shanghai Baoye Group Company Limited (上海寶冶集團有限公司) ("Shanghai Baoye Group") entered into the construction framework agreement (the "Shanghai Baoye Construction Framework Agreement"), pursuant to which the parties agreed to collaborate in relation to the Shanghai Baoye Project according to the terms set out therein. The term of the Shanghai Baoye Cooperation commenced from the date of the Shanghai Baoye Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB1,000,000,000.

For details, please refer to the announcement of the Company issued on 7 September 2016.

4. Discloseable Transaction – Construction Framework Agreements

On 3 November 2016, Wuhan Tianma and Jiangsu Provincial Construction Group Co., Ltd. (江蘇省建築工程集團有限公司) ("Jiangsu Construction") entered into the construction framework agreement (the "Jiangsu Construction Framework Agreement"), pursuant to which the parties agreed to collaborate in relation to the construction works of the general contracting of the construction of the support buildings of G6 Project (the"Jiangsu Construction Project") according to the terms set out therein. The term of the Jiangsu Construction cooperation commenced from the date of the Jiangsu Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB500,000,000.

On 3 November 2016, Wuhan Tianma and The Fourth Construction Co., Ltd. of China Electronics System Engineering (中國電子系統工程第四建設有限公司) ("CEFOC") entered into the construction framework agreement (the "CEFOC Construction Framework Agreement"), pursuant to which the parties agreed to collaborate in relation to the construction works of the pipeline system and the construction works of the cleaning room of the M1 plant of the G6 Project (the "CEFOC Project") according to the terms set out therein. The term of the CEFOC cooperation commenced from the date of the CEFOC Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB500,000,000.

5. Discloseable Transaction – Master Cooperation Agreements and Acknowledgment of Cooperation

On 17 November 2016, Wuhan Tianma and Canon Inc. entered into master cooperation agreement (the "Canon Inc. Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the construction project of the Sixth Generation of LTPS AMOLED production line (the "G6 Project") according to the terms set out therein. The term of the Canon Inc. Master Cooperation Agreement commenced from the date of the Canon Inc. Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY9,000,000,000 (equivalent to approximately RMB586,261,000).

On 17 November 2016, Wuhan Tianma and Applied Materials South East Asia Pte. Ltd. ("AMSEA") entered into the acknowledgment of cooperation (the "AMSEA Acknowledgement of Cooperation"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The effective term of year of the AMSEA Acknowledgement of Cooperation is 2016 with the aggregate amount of consideration not exceeding USD90,000,000 (equivalent to approximately RMB611,325,000).

On 17 November 2016, Wuhan Tianma, Daifuku Co., Ltd and Daifuku (Suzhou) Cleanroom Automation Co., Ltd. (大福自動搬送設備(蘇州)有限公司) ("Daifuku (Suzhou)") entered into the master cooperation agreement (the "Daifuku Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Daifuku Master Cooperation Agreement commenced from the date of the Daifuku Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration with Daifuku Co., Ltd not exceeding JPY3,700,000,000 (equivalent to approximately RMB241,014,300) and the aggregate amount of consideration with Daifuku (Suzhou) not exceeding RMB200,000,000.

On 17 November 2016, Wuhan Tianma and Marubeni Corporation (丸紅株式會社) entered into the master cooperation agreement (the "Marubeni Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Marubeni Master Cooperation Agreement commenced from the date of the Marubeni Master Cooperation Agreement to 30 June 2017 with the aggregate amount of consideration not exceeding JPY10,000,000,000 (equivalent to approximately RMB651,390,000).

On 17 November 2016, Wuhan Tianma and Tokyo Electron Limited entered into the master cooperation agreement (the "Tokyo Electron Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Tokyo Electron Master Cooperation Agreement commenced from the date of the Tokyo Electron Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY5,000,000,000 (equivalent to approximately RMB325,695,000).

On 17 November 2016, Wuhan Tianma and Tera Semicon Corporation entered into the master cooperation agreement (the "Tera Semicon Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Tera Semicon Master Cooperation Agreement commences from the date of the Tera Semicon Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding USD70,000,000 (equivalent to approximately RMB475,475,000).

On 17 November 2016, Wuhan Tianma and SCREEN Finetech Solutions Co., Ltd. ("SFS") entered into the master cooperation agreement (the "SFS Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the SFS Master Cooperation Agreement commenced from the date of the SFS Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY7,000,000,000 (equivalent to approximately RMB455,973,000).

On 17 November 2016, Wuhan Tianma and Nissin Ion Equipment Co., Ltd. ("NIE") entered into the master cooperation agreement (the "NIE Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the NIE Master Cooperation Agreement commenced from the date of the NIE Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding JPY8,500,000,000 (equivalent to approximately RMB553,681,500).

On 17 November 2016, Wuhan Tianma and Advanced Process Systems Corporation ("APSC") entered into the master cooperation agreement (the "APSC Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the APSC Master Cooperation Agreement commenced from the date of the APSC Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding USD100,000,000 (equivalent to approximately RMB679,250,000).

For details, please refer to the announcement of the Company issued on 17 November 2016.

6. Discloseable Transaction – Construction Framework Agreement

On 24 November 2016, Wuhan Tianma and Yaxiang System Jicheng Technology (Suzhou) Holdings Limited (亞翔系統集成科技(蘇州)股份有限公司) ("Yaxiang System") entered into the construction framework agreement (the "Construction Framework Agreement"), pursuant to which the parties agreed to collaborate in relation to the construction and installation works of clean rooms, CDA system, vacuum system and general electricity of G6 Project (the "Construction Project") according to the terms set out therein. The term of the cooperation between Wuhan Tianma and Yaxiang System in relation to the Construction Project under the Construction Framework Agreement commenced from the date of the Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB400,000,000.

For details, please refer to the announcement of the Company issued on 24 November 2016.

7. Discloseable Transaction – Master Cooperation Agreement

On 7 December 2016, Wuhan Tianma and ULVAC, Inc entered into the master cooperation agreement ("ULVAC Master Cooperation Agreement"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the ULVAC Master Cooperation Agreement commenced from the date of the ULVAC Master Cooperation Agreement to 30 June 2017 with the aggregate amount of consideration not exceeding JPY17,200,000,000 (equivalent to approximately RMB1,032,000,000).

For details, please refer to the announcement of the Company issued on 7 December 2016.

8. Discloseable Transaction – Disposal of 75% Equity Interest in Guangdong Hangyue

On 27 October 2016, the Company intended to dispose of its 75% equity interest in Guangdong Hangyue Industrial Co., Ltd. (廣東航粵實業有限公司) ("Guangdong Hangyue") through a public tender process. On 2 December 2016, the board of the Company agreed the upset price for disposal of the 75% equity interest in Guangdong Hangyue through the Public Tender to be conducted on the China Beijing Equity Exchange shall be RMB600 million.

On 31 December 2016, the Company entered into the equity transaction agreement (the "Equity Transaction Agreement") with Pearl River Life Insurance Limited Company (珠江人壽保險股份有限公司) in respect of disposal of 75% equity interest in Guangdong Hangyue for a consideration of RMB600,000,000.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Equity Transaction Agreement and the transactions contemplated thereunder is/are more than 5% but all of them are less than 25%, the Equity Transaction Agreement and the transactions contemplated thereunder constitute a discloseable transactions for the Company. For details, please refer to the announcements of the Company issued on 27 October 2016, 2 December 2016 and 31 December 2016, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2017

Business review

In 2017, the global economy was complicated and changeable with the macro-environment pressure remaining unabated. Strategic ally centered on "Business Focus, Reform and Innovation, and Value Growth", the Group further sharpened its focus on principal business, deepened its management reform and sought to promote quality and efficiency-oriented development.

During the year ended 31 December 2017, the Group recorded a consolidated revenue of approximately RMB36,581,679,000, representing an increase of approximately 10.83% over approximately RMB33,007,917,000 for the previous year. The profit attributable to the equity holders of the Group was approximately RMB408,107,000, representing a decrease of approximately 49.37% from approximately RMB806,066,000 for the previous year.

High-tech Electronic Products

As for the high-tech electronic business, the Group is engaged in research and development (the "R&D"), design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During the Year, the Group secured market opportunities for its business of high-tech electronic products, strengthened profit management, improved the added value of products through technology and product innovation, and committed concrete efforts to boost technical reserve and meticulous management. During the year ended 31 December 2017, the Group's revenue generated from the high-tech electronic products segment was approximately RMB19,290,550,000, representing an increase of approximately 27.80% as compared with RMB15,094,917,000 for the same period of last year; and the net profit was approximately RMB1,233,737,000, representing an increase of approximately 41.61% over the same period of previous year of approximately RMB871,209,000.

(1) FPD

Tianma Company focuses on the market development of FPD, with products mainly applied to the displays of consumer products such as smartphones and tablets as well as professional displays such as those for automobiles, medical treatment and industrial control.

During the Reporting Period, Tianma Company continued to optimize its product structure and seize the earliest market opportunities such as full screen FPD. As a result, Tianma Company experienced a growing proportion of the application of its high-end smartphones and a rapid increase of its in-vehicle products which enjoyed a relatively high added value. Tianma Company never ceased to engage its key strategic customers with intensive efforts and closely follow the mainstream customers in the industry. While further optimizing its customer structure, Tianma Company constantly expanded its new user base and managed to step into three emerging markets, namely industrial laptops, multi-function printers and virtual reality. In an attempt to grasp the market opportunities driven by the demand from the end users of a-Si consumer goods and price increase, Tianma Company was ahead of its competitors in respect of matching its production capacity with customer demands, which led to a significant increase in orders throughout the Year. During the year ended 31 December 2017, Tianma Company finished the construction of its Wuhan 6th-generation AMOLED production line (G6 Project) in April 2017. The production line, capable of manufacturing both rigid and flexible products, has commenced its trial production of samples in small batches.

During the year ended 31 December 2017, the Review Committee of Merger, Acquisition and Reorganization of Listed Companies (上市公司並購重組審核委員會) of China Securities Regulatory Commission (the "CSRC") granted unconditional approval for the reorganization of material assets and financing proposals of Tianma Company, the completion of which took place on 22 January 2018. Accordingly, Xiamen Tianma Microelectronics Co., Ltd. ("Xiamen Tianma Company") has become a wholly-owned subsidiary of Tianma Company and Shanghai Tianma Organic Light Emitting Display Technology Co., Ltd. ("Tianma Organic Company") has become an indirect wholly-owned subsidiary of Tianma Company.

(2) PCB

Intensively engaged in PCB interconnection on a continuous basis, SCC is committed to providing its customers with one-stop service that centers on interconnection and covers design, production, material purchasing, assembly, processing and testing. Its products are extensively applied to such high-tech areas as communications, aerospace, medical service and industry control.

During the Reporting Period, the spin-off and initial public offering of SCC were approved by CSRC, with SCC formally listed on Shenzhen Stock Exchange on 13 December 2017 (stock code: 002916).

As for its PCB business during the Reporting Period, SCC seized the opportunities brought by telecommunications customers. Orders surged in comparison with the same period of the previous year. For the whole year, output remained at a high level, with robust delivery and continuously improving profitability. As for its printed circuit board assembly business, SCC attained a quick breakthrough in the output of its integrated projects, with the output value of the whole year experiencing substantial year-on-year growth. In addition, the SCC witnessed a sharp increase in its packaging substrate business, owing to the growing contribution from major customers, with substantial year-on-year growth in revenue and profit. On top of that, infrastructure construction took place smoothly at SCC's Nantong factory, with successful installation of press, electroplating lines and other major equipment.

Retails and Consumer Products

In respect of its retails and consumer products segment, the Group is engaged in the R&D and brand operation of middle to high-end wrist watches as well as chain sales and service of luxury watches through its subsidiary, Fiyta. For the year ended 31 December 2017, the revenue generated from the retails and consumer products segment of the Group amounted to approximately RMB3,322,928,000, representing an increase of approximately 12.07% as compared with RMB2,965,074,000 for the same period of last year. The net profit was approximately RMB224,432,000, representing an increase of approximately 17.31% over the same period of previous year of approximately RMB191,321,000.

During the Reporting Period, Fiyta took the initiative in grasping the opportunities brought by a recovering watch market, and made great efforts to develop new brands and business and improve channel efficiency. This led to growth in both revenue and profit. During the Reporting Period, Fiyta capitalized on consumer demand, accelerated its brand cultivation and development. Fiyta watches have been displayed at Hall 1 of Baselworld – The World Watch and Jewelry Show in Switzerland for seven consecutive years and was among the first batch of "China Made" products selected by Ministry of Commerce, which evidenced the progress of Fiyta's international drive. The brands of "Jonas & Verus" and "Beijing" also enjoyed rapid development. Apart from that, Fiyta was active in transforming its business model, which was translated into steady improvement in its E-commerce and technology services business. Harmony has further materialized its role as an integrated service provider for prestigious watches. Furthermore, internal management has been strengthened, together with continuous optimization of product and channel structures, faster integration of information-based development, intelligent approaches and internal operation. This was also translated into a substantially higher output per shop and further improvement in operational efficiency internal operation. This was also translated into a substantially higher output per shop and further improvement in operational efficiency.

Trading and Logistics

The Group is engaged in mechatronics engineering and general contracting of cement construction through Beijing Company, as well as ship engineering, bitumen and mechatronics products through AVIC Maritime and Guangzhou Company. For the year ended 31 December 2017, the Group's revenue generated from the trading and logistics business was approximately RMB8,728,103,000, representing a decrease of approximately 18.78% from approximately RMB10,745,852,000 for the previous year. The loss was approximately RMB472,742,000, representing a decrease of approximately RMB502,427,000 when compared to the net profit of approximately RMB29,685,000 recorded for the previous year.

(1) Ship Engineering

In respect of the ship engineering business, the Group further optimized and upgraded its product structure to allow high value-added ship models, such as ro-ro passenger ships and stone dampers, to become its mainstream products. As for its shipyards, the Group reinforced cost budget, management and control, built a system of core technologies, enhanced key technologies and capabilities, and kept improving shipyard management. In particular, Deltamarin Oy saw further improvement in its strategic coordination and business integration, frequently obtaining large orders for its ship design business which maintained ample workload. In the meantime, the Group has been actively seeking project opportunities from the "Belt and Road" initiative for its ship business and exploring fresh business models. During the year ended 31 December 2017, the Group entered into new orders for 19 ships, with orders coming into effect for 15 ships, a cumulative total of 39 orders on hand, and 24 ships delivered for the whole year.

(2) Mechatronics Engineering

In respect of the mechatronics engineering business, the Group is mainly engaged in the engineering procurement construction (EPC) for cement and mechatronics projects as well as the construction material and petrochemical business through Beijing Company. During the Reporting Period, Beijing Company was strongly committed to the key markets under the "Belt and Road" initiative. As such, projects were expanded and came into effect more quickly, and ongoing projects took place smoothly. The Group also went deeper in innovatively replicating its business model in East Africa, as the East Africa Industrial Park in Kenya completed construction and started operation. KHD Humboldt Wedag International AG enjoyed better operation, as the company adopted measures to secure orders, improve management and reduce costs. During the Reporting Period, Beijing Company entered into four new projects, totaling more than US$2.7 billion. However, there was insufficient settlement of orders due to the impact of global economy and industry environment, which resulted in a considerable loss recorded by Beijing Company.

Real Estate and its investments

The Group is engaged in engineering contracting through Engineering Company. During 2017, the real estate business of the Group recorded a revenue of approximately RMB4,517,885,000, representing an increase of approximately 27.47% over the revenue recorded last year of approximately RMB3,544,146,000. The net profit was approximately RMB273,519,000, representing an increase of approximately 1,201.79% over approximately RMB21,011,000 for last year. The net profit comprises the investment gain totalling approximately RMB107,260,000 from share of results of AVIC Real Estate, an associated company, and gain on disposal of AVIC Vanke Company Limited ("AVIC Vanke"), a jointly-controlled company.

During the year ended 31 December 2017, the Group further focused on its principal business and gradually stepped away from the residential property development business. Specifically, the Group disposed of its equity interest in AVIC Vanke, and Engineering Company completed the disposal of its equity interest in Hangfa Investment Management Co., Ltd. (航發投資管理有限公司) and obtained an aggregate investment profit of approximately RMB444,404,000. The Group sustained a positive momentum in its EPC business. Throughout the Year, it entered into 19 EPC contracts which totaled more than USD1.8 billion. Among them, 14 were international engineering projects with a contract amount of over USD1.7 billion, while the remaining five were domestic engineering projects with a total contract amount of approximately RMB0.6 billion. Engineering Company has seen the brand influence of its aviation facility projects greatly improved. During the year ended 31 December 2017, it had four ongoing aviation facility projects, in addition to the successful completion and delivery of the runway project for Bandaranaike International Airport in Sri Lanka.

BUSINESS PROSPECTS

In 2018, the Group will revolve around the strategic theme of "Reform and Reconstruction, Focus on Breakthrough, and Value Growth" and improve its management structure, systems and procedures. It will also work on restructuring its business model to focus on the principal business, continue to optimize resource allocation and improve corporate operation, quality, efficiency as well as internal value.

High-tech Electronic Products

The Group's FPD business will further focus on the consumer products market and professional display, actively engage itself in such emerging markets as smart home furnishings, smart wear and augmented reality/virtual reality, and promote the integration between military and civilian sectors for the application of relevant products. The Group will not cease to improve its operational efficiency and productivity by focusing on the market, strengthening capabilities and optimizing costs, and waste no time to improve the output of Wuhan G6 Production Line. In respect of the PCB business, the Group will enhance its product advantages, actively obtain orders, enhance production and operational efficiency by building professional factories and intelligent systems, and step up the pace to improve the production capacity of its factory in Nantong and construct its substrate factory in Wuxi. All such efforts aim to help the Group secure a leading position in the industry.

Retails and Consumer Products

In respect of the retails and consumer products business, the Group will maintain its business layout of "Products + Channels", stick to intensive development, and strengthen and optimize the existing business, so as to enhance the output per shop and further enhance brand image. The Group will also rely on its resources and capabilities to explore development opportunities, fresh business and new markets, and further its transformation through innovative business models and institutional reform. All such measures aim to improve the quality of development.

Trading and Logistics

In respect of the ship engineering business, the Group will fully tap into the technical advantages of Deltamarin Oy, build its system of core technologies and enhance its key technical capabilities. The Group will also continue to deepen its cost reduction and efficiency enhancement, so as to enhance its management and manufacturing capabilities. As for the mechatronics engineering business, the Group will commit intensive efforts to developing the "Belt and Road" market, increasing international development and obtaining orders proactively. It will continue to improve the operation and management of KHD Humboldt Wedag International AG.

Real Estate

In 2018, the Group will continue to step away from the residential property development business. As for its international engineering business, the Group will vigorously expand the markets in countries along the "Belt and Road" initiative and African countries, actively seize market opportunities in key overseas regions, and intensively work on the engineering projects for aviation facilities, overseas transportation and urban infrastructure. In addition, the Group will enhance the ability of executing the projects on hand, promote lean management and cost risk control, and strive to enhance profitability.

CAPITAL STRUCTURE

	2017 *(RMB'000)*	**2016** *(RMB'000)*
Total borrowings	22,843,811	18,589,087
Total liabilities	45,748,322	39,414,224
Non-controlling interests	14,821,698	13,327,266
Equity attributable to owners of the Company	12,993,036	12,039,247
Total assets	73,563,056	64,780,737
Borrowings to equity ratio*	82.13%	73.28%
Liabilities to equity ratio*	164.48%	155.38%

* Borrowings to equity ratio = Total borrowings at the end of the year/Total equity of the Company at the end of the year

* Liabilities to equity ratio = Total liabilities at the end of the year/Total equity of the Company at the end of the year

LIQUIDITY AND CAPITAL RESOURCES

The Group adopts a sound treasury policy in cash and debt management. The management of the Group focuses on securing cash flow security, providing efficiency in the use of funds, preventing financial risks and ensuring the business development based on the strategic needs of the Company.

As at 31 December 2017, the cash and cash equivalents of the Group amounted to approximately RMB12,222,026,000 (2016: RMB9,020,381,000), which were mainly derived from the following sources:

- Cash and bank deposits at the beginning of the year;
- Bank loans, borrowings from related parties; and
- Revenue from operations.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2017	2016
	RMB'000	*RMB'000*
RMB	7,586,999	3,369,782
USD	3,128,197	4,068,632
EUR	618,613	451,924
Others	888,217	1,130,043
	12,222,026	9,020,381

As at 31 December 2017, the total borrowings of the Group amounted to approximately RMB22,843,811,000 (2016: RMB18,589,087,000) with annual interest rate ranging from 0% to 6.88% (2016: 0% to 6.44%), of which the current borrowings amounted to approximately RMB12,298,881,000 (2016: RMB9,608,905,000) and the noncurrent borrowings amounted to RMB10,544,930,000 (2016: RMB8,980,182,000). The total borrowings at fixed rates of the Group amounted to RMB10,166,947,000 (2016: RMB7,098,063,000).

The carrying amounts of the borrowings are denominated in the following currencies:

	2017		2016	
	RMB'000	*Effective Annual Interest Rate*	*RMB'000*	*Effective Annual Interest Rate*
RMB	19,613,793	0.00%~6.53%	13,419,771	0.00%~6.88%
USD	1,880,248	0.54%~6.03%	2,720,541	1.65%~5.53%
EUR	989,495	2.11%~2.60%	1,712,935	2.11%~6.00%
Others	251,323		371,149	
	22,734,859		18,224,396	

During the year ended 31 December 2017, the capital expenditure of the Group amounted to approximately RMB8,308,938,000, the details of which are set forth below:

Company Name	**Project Name**	**Amount** *RMB'000*
Fiyta	Ancillary construction for the watch industrial base in Guangming New Area, and purchase of other long-term assets	43,244
Engineering Company	Purchase of a new office building in Colombo, capital of Sri Lanka	58,686
Hunan AVIC Fastening Systems Co., Ltd. (湖南中航緊固系統有限公司)	Hengyang Songmu Industrial Park Project	62,166
Heng Yang AVIC Electroplating Centre Co., Ltd. (衡陽中航電鍍中心有限公司)	Phase I of the sewage treatment station project	26,299
Xiamen Company	Self-owned part of AVIC Zijin Plaza (中航紫金廣場)	5,926
Tianma Company	Project of the 6th generation of LTPS AMOLED production lines for Wuhan Tianma, and various technological transformation projects	7,350,366
Shandong New Shipbuilding Heavy Industry Co., Ltd.	Port construction and equipment	27,105
RED Company	Integrated Energy Saving Project in Tai An	8,282
SCC	Research and development projects, technological transformation projects, and base construction for Nantong Project and Wuxi Shennan Base Construction	624,317

Company Name	Project Name	Amount *RMB'000*
Guangzhou Company	Project construction and maintenance of the bitumen base	57,769
Beijing Company	Installation of cement equipment, project of Humboldt China Design Institute, expansion of East-African Operation Centre, and investment projects in Cuba and Zambia	44,778
Total		8,308,938

The Group is expected to incur a capital expenditure of approximately RMB16,565,630,000 for the year ended 31 December 2018, with details as follows:

Company Name	Project Name	2018 Amount *(RMB' 000)*
Tianma Company	Wuhan Tianma G6 project, Xiamen Tianma G6 project, the organic light-emitting G5.5 production line project, etc.	14,372,830
SCC	Multilayer printed circuit board project and technological transformation project	1,031,540
Fiyta	Engineering investment in the timepiece industrial base in Guang Ming New District, etc.	363,000
Engineering Company	Acquisition of upstream and downstream enterprises	500,000
AFM Company	Construction and equipment investment in the Hengyang factory	101,000
Xiamen Company	Project on the office building of AVIC Zijin Plaza	27,500

Company Name	Project Name	2018 Amount *(RMB' 000)*
AVIC Lutong Industrial Co., Ltd.	Construction of the bitumen base in Tianjin and other related construction at the base	71,000
RED Company	Projects in Luoyuan County, Dong'an, Tian'an, etc.	74,460
Weihai Shipyard	New workshops at the dock, infrastructure renovation, etc.	17,700
Beijing Company	Establishment of the engineering machinery operations center	6,600
Total		16,565,630

PLEDGED ASSETS

As at 31 December 2017, bank loans of RMB2,533,085,000 (31 December 2016: RMB948,043,000) of the Group were secured by the following:

	2017 *RMB'000*	**2016** *RMB'000*
Trade and other receivables	–	199,877
Buildings	1,167,465	942,810
Construction-in-process	27,042	–
Land use rights	375,821	200,327
Inventory	4,688	–
	1,575,016	1,343,014

LOAN-TO-EQUITY RATIO

As at 31 December 2017, the Group's loan-to-equity ratio (total borrowings divided by shareholders' equity) was 82.13% (2016: 73.28%), whilst the liability-to-equity ratio (total liabilities divided by shareholders' equity) was 164.48% (2016: 155.38%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31 December 2017, the Company did not have entrusted deposit or overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As at 31 December 2017, the Group had approximately 39,057 employees (2016: 38,406), with employee-related costs of approximately RMB4,220,025,000 (2016: RMB4,031,585,000). The Group formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISK

As the Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, due to the greater fluctuation of exchange rate in recent years, the Group has been managing its foreign exchange risks and actively addressing the exposure to foreign exchange fluctuation. The Group uses appropriate derivative financial instruments to hedge certain risk exposures.

FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2017, the Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Company	Guaranteed party	Guaranteed party's relationship with the Company	2017 Outstanding Amounts guaranteed *RMB'000*	2016 Outstanding amounts guaranteed *RMB'000*
Tianma Company	Subsidiary of the Company	Shanghai Tianma Organic Light-Emitting Technology Company Limited* (上海天馬有機發光顯示技術有限公司)	Associated company	757,386	682,572
Beijing Company	Subsidiary of the Company	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Third Party	126,168	–
Xiamen Company	Subsidiary of the Company	Xiamen Tianma Microelectronics Company Limited* (廈門天馬微電子有限公司)	The guarantor holds 6% equity interests in the guaranteed company	94,966	176,000

Guarantor	Guarantor's relationship with the Company	Guaranteed party	Guaranteed party's relationship with the Company	2017 Outstanding Amounts guaranteed *RMB'000*	2016 Outstanding amounts guaranteed *RMB'000*
Engineering Company	Subsidiary of the Company	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associated company	53,900	–
Beijing Company	Subsidiary of the Company	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third Party	–	347,040
Beijing Company	Subsidiary of the Company	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	–	11,710
TED Company	Subsidiary of the Company	AVIC Wang Xin Beijing Science and Technology Co., Ltd.* (中航網信(北京)科技有限公司)	Associated company	–	25,000
Engineering Company	Subsidiary of the Company	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associated company	–	127,400
The Company	–	Shenzhen AVIC Resources Co., Ltd.* (深圳中航資源有限公司)	Fellow subsidiary	–	714,000
The Company	–	Qinghai AVIC Resources Co., Ltd.* (青海中航資源有限公司)	Fellow subsidiary	–	475,470
The Company	–	Kunming AVIC Phosphorus Chemical Co., Ltd.* (昆明市中航磷化工有限公司)	Fellow subsidiary	–	34,000

Guarantor	Guarantor's relationship with the Company	Guaranteed party	Guaranteed party's relationship with the Company	2017 Outstanding Amounts guaranteed *RMB'000*	2016 Outstanding amounts guaranteed *RMB'000*
The Company	–	Yunnan Hongfu Fertilizer Co., Ltd.* (雲南紅富化肥有限公司)	Fellow subsidiary	–	6,430
The Company	–	Qinghai AVIC Silicon Material Co., Ltd.* (青海中航硅材料有限公司)	Fellow subsidiary	–	23,344
				1,032,420	2,622,966

* The English names of these companies are management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of 2 Subject Companies Including Xiamen Tianma by Tianma Company and Proposed A Shares Placing of Tianma Company

On 10 March 2017, Tianma Company entered into two separate framework agreements (the "Xiamen Tianma Framework Agreement" and the "Tianma Organic Framework Agreement", collectively, the "Framework Agreements") with (a) AVIC International, AVIC International Shenzhen Company Limited ("AVIC Shenzhen"), China National Aero Technology Xiamen Company Limited (中國航空技術廈門有限公司) (the"Xiamen Company") and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("Xiamen Jincai") in relation to the acquisition of 100% equity interest in Xiamen Tianma Company; and (b) Shanghai Industrial Investment (Group) Co., Ltd. ("Shanghai Investment Company") and Shanghai Zhangjiang (Group) Co., Ltd. ("Shanghai Zhangjiang Company") in relation to the acquisition of 60% equity interest in Tianma Organic Company (the "Xiamen Tianma Acquisition" and the "Tianma Organic Acquisition", collectively, the "Acquisitions").

Pursuant to the Framework Agreements, the consideration for the Acquisitions will be fully settled by issue of consideration shares (the "Consideration Shares") to the vendors under the Framework Agreements upon completion of the respective Acquisitions at an issue price of RMB17.23 per A share, which was determined with reference to and not lower than the benchmarked price of the A shares, being 90% of the average price for the Acquisitions (details please refer to the announcement of the Company dated 10 March 2017). The maximum number of Consideration Shares to be issued under the Xiamen Tianma Framework Agreement and the Tianma Organic Framework Agreement will be 613,821,008 and 39,267,579, respectively.

Based on the maximum number of Consideration Shares to be allotted and issued and the issue price of RMB17.23 per A share, it is expected that the maximum consideration for the Xiamen Tianma Acquisition and the Tianma Organic Acquisition will be RMB10,576,135,967.80 and RMB676,580,386.17, respectively.

The Acquisitions are not inter-conditional with each other.

Pursuant to the Framework Agreements, Tianma Company proposes to issue not more than 111,987,085 new A shares (the "Placing Shares") to not more than 10 investors (the "Proposed A Shares Placing"). The placing price of the Placing Shares shall not be lower than 90% of the average price for the Proposed A Shares Placing (for details please refer to the announcement of the Company dated 10 March 2017) and shall not be lower than the issue price of the Consideration Shares pursuant to the Framework Agreements, which is subject to the rules and regulations of CSRC and Shenzhen Stock Exchange. The proceeds to be raised under the Proposed A Shares Placing will be used for the construction of LTPS and colour filter (CF) production line of Xiamen Tianma Company, including expenses on purchase of equipment and installation which is in line with the requirement of CSRC. The success or failure of the Proposed A Shares Placing would not affect the Acquisitions and the Consideration Issue.

The Xiamen Tianma Acquisition constitutes a very substantial acquisition of the Company under Chapters 14 and 14A of the Listing Rules and a connected transaction and is subject to the reporting, announcement and independent shareholders' approval requirements.

On the other hand, the Tianma Organic Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements pursuant to the Listing Rules.

Assuming the Acquisitions have been completed, upon issue of the Consideration Shares (the "Consideration Issue") (assuming the maximum number of Consideration Shares as provided under the Framework Agreements are issued), the equity interest of the Company held in Tianma Company will be diluted from approximately 20.81% to approximately 15.98% (including 1.79% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company). If Tianma Company proceeds with the Proposed A Shares Placing after completion of the Acquisitions, the equity interests of the Company held in Tianma Company will be further diluted to approximately 15.16% (including 1.70% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company) of the enlarged issued share capital of Tianma Company (assuming 111,987,085 new A Shares are issued) upon completion of the Proposed A shares Placing. Such dilution in interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing will constitute a deemed disposal of interest in Tianma Company held by the Company pursuant to Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Consideration Issue and the Proposed A Shares Placing exceed(s) 75%, the dilution of the Company's equity interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules and the transactions are therefore subject to announcement, reporting and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Acquisitions and the Proposed A shares Placing have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 12 June 2017. Please refer to the announcement of the Company dated 10 March 2017, the circular dated 28 May 2017 and the extraordinary general meeting's poll result announcement of the Company dated 12 June 2017 for details.

The asset appraisal reports of Xiamen Tianma Company and Tianma Organic Company have been filed with the SASAC on 17 August 2017 and 22 August 2017, respectively.

On 23 August 2017, Tianma Company entered into the following formal agreements (collectively, the"Formal Agreements") in relation to the Xiamen Tianma Acquisition and the Tianma Organic Acquisition as contemplated under the Framework Agreements:

(1) the asset acquisition agreement (the "Xiamen Tianma Formal Agreement") in relation to the acquisition of an aggregate of 100% equity interest in Xiamen Tianma Company with AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai for an aggregate consideration of RMB10,452,506,800 (equivalent to approximately HK$12,241,681,897); and

(2) the asset acquisition agreement (the "Tianma Organic Formal Agreement") in relation to the acquisition of an aggregate of 60% equity interest in Tianma Organic Company with Shanghai Investment Company and Shanghai Zhangjiang Company for an aggregate consideration of RMB656,900,600 (equivalent to approximately HK$769,343,501).

As Tianma Company has already distributed dividend for the year of 2016 on 26 July 2017, the issue price of the Consideration Shares and the placing price of the placing shares was adjusted to RMB17.17 per A Share and the consideration under the Acquisitions will be settled in full by a total of 647,024,307 A shares to be allotted and issued by Tianma Company as Consideration Shares and the number of placing shares will be 110,658,124. For details, please refer to the announcement of the Company dated 23 August 2017.

Each of the Acquisitions and the Proposed A Shares Placing has been approved by SASAC and the shareholder's meeting of Tianma Company. Please refer to the announcements of the Company dated 8 September and 15 September 2017 for more details.

On 6 December 2017, Tianma Company was informed by CSRC that the Consideration Issue and the Proposed A Shares Placing had been approved at the 68th conference meeting for 2017 of the Review Committee of Merger, Acquisition and Reorganisation of Listed Companies (上市公司並購重組審核委員會) of the CSRC convened on 6 December 2017. Please refer to the announcement of the Company dated 6 December 2017 for details.

On 15 January 2018, Tianma Company received a written approval from CSRC issued on 11 January 2018 on the Consideration Issue and the Proposed A Shares Placing with a validity period of twelve months from the date of issue. The major terms of the approval are as follows:

1. Tianma Company was approved to issue 389,610,040 new A shares, 89,488,555 new A Shares, 93,141,147 new A shares, 36,525,940 new A shares, 25,505,748 new A Shares and 12,752,877 new A shares to Xiamen Jincai, AVIC International, AVIC Shenzhen, AVIC Xiamen, Shanghai Investment Company and Shanghai Zhangjiang Company respectively for the Consideration Issue;

2. Tianma Company was approved to raise no more than RMB1,900,000,000 for the Proposed A Shares Placing.

For details, please refer to the announcement issued by the Company on 15 January 2018.

On 31 January 2018, Tianma Company completed assets transfer for its acquisition of two subject companies, namely Xiamen Tianma Company and Tianma Organic Company. On the date of assets transfer completion, Shanghai Tianma and Xiamen Tianma Company became the wholly-owned subsidiaries of Tianma Company respectively; hence, the entrusted management agreement signed between Shanghai Tianma and Xiamen Tianma Company on 4 March 2016 has been terminated. Tianma Company issued an aggregate of 647,024,307 A Shares (equivalent to the total number of Consideration Shares under the Acquisitions) to six transferees, including AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai. Such A Shares were listed on the Shenzhen Stock Exchange on 2 February 2018. Please refer to the announcements of the Company dated 22 January 2018 and 31 January 2018 for more information.

2. Proposed Mandate in Relation to the Possible Major Disposal and Connected Transaction

On 17 May 2017, the Board resolved to dispose of 47.12% equity interest in AVIC International Vanke Company Limited ("AVIC Vanke") (the "AVIC Vanke Interest") held by the Company. As the Company and AVIC International both are state-owned enterprises and the AVIC Vanke Interest constitutes State-owned assets, the disposal of the AVIC Vanke Interest by the Company is required to go through the process of public tender through an equity exchange in accordance with the relevant laws and regulations of the PRC governing the disposal of State-owned assets. It is proposed that the Company will, jointly with AVIC International, conduct the disposal of the 60% interest in AVIC Vanke in aggregate in relation to their respective 47.12% and 12.88% equity interest in AVIC Vanke through China Beijing Equity Exchange.

Based on the preliminary appraised value of AVIC Vanke as at 31 December 2016, it is expected that the minimum bidding price for the Proposed Disposal shall be in the range of RMB1,780,440,000 to RMB1,876,680,000. The minimum bidding price of the AVIC Vanke Interest will be determined based on the appraised value of AVIC Vanke with reference to prevailing market prices subject to the approval from relevant regulatory authorities of State-owned assets in the PRC.

The final consideration will depend on the final bid price offered by the successful bidder for the AVIC Vanke Interest, but will in any event be no less than the relevant minimum bidding price.

The Proposed Disposal has been approved by the independent shareholders of the Company at the extraordinary general meeting. For details, please refer to the announcements of the Company dated 17 May and 18 May 2017, the circular of the Company dated 22 September 2017, and the poll results of the extraordinary general meeting dated 11 October 2017.

On 23 October 2017, the draft appraisal report of AVIC Vanke in relation to the Proposed Disposal was approved by Aviation Industry Group and the final appraised value of the 100% equity interest in AVIC Vanke was RMB3,847,131,600, pursuant to which, the minimum bidding price for the Proposed Disposal was set at RMB1,812,768,410. On 3 November 2017, the formal process of public tender in respect of the Proposed Disposal was set to take place at China Beijing Equity Exchange ("CBEE") (北京產權交易所) on 6 November 2017 in accordance with the relevant requirements applicable to the transfer of state-owned equity interest. The minimum bidding price for the Proposed Disposal was RMB1,812,768,410, which was determined with reference to the appraised value of AVIC Vanke approved by Aviation Industry Group.

On 2 January 2018, the Company and AVIC International entered into an equity transaction agreement with Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) in respect of the disposal of AVIC Vanke Interest and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960. The consideration for the disposal of AVIC Vanke Interest was RMB1,844,181,743.25. Upon completion of the Potential Disposal, the Company will cease to have any equity interest in AVIC Vanke. For details, please refer to the announcement issued by the Company on 2 January 2018.

3. Disposal of 75% Equity Interest in GIB Company

On 16 June 2017, the Company announced that it intended to dispose of its 75% equity interest in Guangdong International Building Industrial Co., Ltd. (廣東國際大廈實業有限公司) ("GIB Company") through a public tender process. The formal procedures for the public tender are proposed to commence on 24 August 2017. The base price for transfer of the 75% equity interest in GIB Company shall be RMB297,000,000.

Based on the base price of the tender for transfer of 75% equity interest in GIB Company of RMB297,000,000, one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the potential disposal is/are expected to be more than 5% but less than 25%. As such, the potential disposal, if materialized, may constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules. For details, please refer to the announcements of the Company dated 16 June 2017 and 23 August 2017.

4. Proposed Spin-off and Separate Listing of SCC on the Shenzhen Stock Exchange and Possible Major Disposal for the Company

On 13 May 2016, the Board issued an announcement in relation to possible spin-off and separate listing of SCC, a subsidiary of the Company which is mainly engaged in the PCB business, on Shenzhen Stock Exchange (the "Proposed Spin-off"). It is proposed that SCC will offer not more than 70,000,000 shares (the "Offer Shares"), including new shares to be issued by SCC and up to 35,000,000 existing shares to be sold by the Company. The indicative offer price of the A shares of SCC is expected to be RMB32.86 per A share and the expected maximum proceeds raised from the proposed A share listing of SCC will be RMB2,300,000,000. The offer price per A share of SCC will depend on the domestic market condition of PRC at the time of the proposed A share listing with reference to the quotation from target subscribers or determined otherwise as agreed between SCC and the lead underwriter. The Board expected that the Company will have an interest of not less than 50% in SCC upon the completion of the Proposed Spinoff and proposed A share listing, SCC will thus remain as a non-wholly owned subsidiary of the Company. The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2016. Please refer to the announcements of the Company issued on 10 April 2015 and 13 May 2016, the poll results announcement of the extraordinary general meeting of the Company dated 26 July 2016 and the circular despatched by the Company dated 21 June 2016, respectively, for more details.

On 24 October 2017, the listing of SCC's A shares on Shenzhen Stock Exchange was approved at the tenth meeting of the seventeenth session of Issuance Examination Commission of CSRC. On 17 November 2017, SCC received a formal approval in writing from CSRC with a validity period of 12 months from 17 November 2017.

On 6 December 2017, SCC issued 70,000,000 A shares at the offer price of RMB19.30 each upon completion of its initial price inquiry. The subscription payment of both online and offline offer shares was completed on 4 December 2017. The total amount of proceeds raised from SCC offering was RMB1,351,000,000. After deducting the offering cost, the net proceeds raised from the offering amounted to RMB1,268,000,000. The A shares of SCC (stock code: 002916) were listed on the Shenzhen Stock Exchange on 13 December 2017. Upon completion of the offering, the Company holds 195,278,970 A shares of SCC, representing 69.7425% of the total equity capital of SCC, which remains a non-whollyowned subsidiary of the Company. For details, please refer to the announcements issued by the Company on 24 October, 17 November, 6 December and 11 December 2017.

5. Connected Transaction – Potential Disposal of 24.5% Equity Interest in AVIC Construction Engineering through Public Tender

On 29 November 2017, the Board resolved to approve that the Engineering Company (a wholly-owned subsidiary of the Company) and AVIC Shenzhen would conduct the disposal of the 75.5% interest in AVIC Construction Engineering Company Limited ("AVIC Construction Engineering") in aggregate in relation to their respective 24.5% and 51% equity interest in AVIC Construction Engineering through CBEE. Based on the appraised value of AVIC Construction Engineering as at 30 June 2017, it is expected that the minimum bidding price for the disposal of 24.5% equity interest in AVIC Construction Engineering (the "Potential Disposal") would not be lower than RMB39,440,500.

The public tender process for the Potential Disposal commenced on 30 November 2017. On 23 January 2018, the Engineering Company and AVIC Shenzhen entered into an equity transaction agreement with Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) ("Shenzhen Lian Heng") in respect of the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200. The consideration for the disposal of 24.5% equity interest in AVIC Construction Engineering was RMB39,440,520. On 9 February 2018, AVIC Construction Engineering completed assets transfer and the registration for such industrial and commercial changes. Upon completion of the Potential Disposal, the Engineering Company no longer holds any equity interest in AVIC Construction Engineering. For details, please refer to the announcement issued by the Company on 23 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2018

Business Review

The year of 2018 witnessed an intricate macroeconomic environment at home and abroad, escalating international trade frictions, growing downward pressure in the domestic economy, accelerating cross-sector competition and integration within the industry, as well as enhanced policy requirements on security and environmental protection. Confronted by such complex and grim external environment, the Group closely followed its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth", further optimized its business structure, and expedited its exit from established businesses including real estate development business.

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB54,290,366,000, which represented an increase of approximately 17.32% over the previous year of approximately RMB46,276,689,000. Due to the loss in the international engineering and trading and logistics business caused by macro-environment and industry fluctuations, the Group recorded a loss attributable to owners of the Company of approximately RMB568,314,000, representing a decline of approximately RMB1,079,256,000 compared with the profit of approximately RMB510,942,000 for the previous year.

High-Tech Electronic Products Business: Fast-tracking Industrial Upgrade and Promoting Efficiency Growth

	Revenue In 2018 *RMB'000*	**Year-on-year change**	**Net profit In 2018** *RMB'000*	**Year-on-year change**
High-Tech electronic products	35,926,003	23.94%	1,618,270	-17.01%
Of which: FPD	28,537,031	21.52%	914,585	-38.86%
PCB	7,388,972	34.28%	703,685	54.96%

In respect of high-tech electronic products, the Group is engaged in research and development ("R&D"), design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During the Reporting Period, the Group kept abreast of market demand in high-tech electronic products, expedited its industrial upgrade mainly through the development of pioneering products and construction of key projects, and promoted operational efficiency growth by optimizing its customer structure and improving key operational capabilities.

(I) FPD: Continued growth in business scale and sustained industry leadership in innovative technologies

Tianma Company focuses on the market development of FPD, with products mainly applied to the displays of consumer products such as smartphones and tablets as well as professional displays such as those for in-vehicle products, medical service and industrial control.

During the Reporting Period, Tianma Company completed its acquisition of 100% equity interest in Xiamen Tianma Microelectronics Co., Ltd. (廈門天馬微電子有限公司) ("Xiamen Tianma Company") and 60% equity interest in Shanghai Tianma Organic Light Emitting Display Technology Co., Ltd (上海天馬有機發光顯示技術有限公司) ("Tianma Organic Company"), which improved the R&D and production capabilities in emerging display technologies such as low temperature poly-silicon ("LTPS") and active matrix organic light-emitting diode panels (主動矩陣有機發光二極體面板) ("AMOLED"), further expanded the business scale and boosted its industry influence.

Tianma Company maintained its strategic presence in visionary technologies such as flexible display and incell/on-cell integration touch technology, obtained a number of technological awards, and established its leading position in high-end small and medium-sized displays. Specifically, Tianma Company ranked first globally in LTPS smartphone panels and liquid-crystal display (LCD) full displays, with the consistently highest shipment worldwide; its thin-film transistor (TFT) shipment also led the Market of Mainland China and surged to top three around the globe; and continued to lead the world in its share in market segments such as POS terminal and aviation electronics. As a key project, the Wuhan G6 AMOLED production line realized partial mass production while Phase II of the project has commenced officially.

During the Reporting Period, Tianma Company saw a decline in gross profit margin and an increase in three items of expenses due to the ramp-up of its production capacity. Meanwhile, due to the operational risks among some customers, provision of approximately RMB492 million was made for bad debts in accounts receivable by Tianma Company on a prudent basis, resulting in a year-on-year decrease in its profit.

(II) PCB: A fresh record high in output and a significant rise in profitability

SCC's PCB products cover middle to high-end multilayer PCBs, packaging substrate and printed circuit board assembly ("PCBA"), which are mainly applied to high-tech fields such as telecommunications, aviation, medical service, new energy vehicles and industrial control.

In 2018, SCC, with its focus on key customers, worked vigorously on obtaining orders and delivering quality, actively grasping the market opportunities communications, medical service and industrial control, continuously optimized product structure, and established its presence in smart manufacturing at a faster pace. As a result, SCC continued to record fresh historic highs in three of its business segments, namely PCB, packaging substrate and PCBA, with substantial growth in both revenue and profit.

While maintaining its leading advantage in high-tech fields such as communications and aviation, SCC has been actively establishing its presence in smart manufacturing. Its smart factory in Nantong had an auspicious start with annual gross profit exceeding expectations, setting a new benchmark for leading industrial production capacity; and the substrate factory in Wuxi completed construction ahead of schedule.

As such, leveraging on its leading technology, superior product quality and premium service, SCC has earned high recognition from its core customers, and enhanced its market leadership position continuously.

During the Reporting Period, SCC adopted a restricted share incentive scheme on 12 November 2018, and completed granting 2,800,000 restricted shares to 145 employees on 28 January 2019. For details of the restricted share incentive scheme, please refer to the announcements of the Company dated 12 November 2018 and 28 January 2019.

Retails and Consumer Products Business: Proceeding with Transformation and Upgrading and Steadily Promoting Business Model Innovation

	Revenue in 2018 *RMB'000*	**Year-on-year change**	**Net profit In 2018** *RMB'000*	**Year-on- Year change**
Retails and consumer products business	3,376,464	1.61%	183,080	-18.43%

In respect of retails and consumer products, the Group is engaged in the production and brand operation of middle to high-end watches as well as chain sales and services of luxury watches through its subsidiary, Fiyta. During the year ended 31 December 2018, the retails and consumer products business focused on the application of digital and intelligent technological approaches to promote transformation and upgrading, innovate business models, and strive for connotative growth of daily operations.

In 2018, Fiyta upgraded its products and reshaped its brand in an in-depth manner, accelerated organizational reform, and beefed up the support and synergy to its own brands from professional platforms such as R&D and design. Fiyta aerospace watches and application projects won the fifth China Industry Award (中國工業大獎), the highest industrial award set up by the State Council of the People's Republic of China (the "PRC"). Harmony worked on channel optimization with full force, leading to effective improvement in per customer transaction and customer service, appreciably enhanced capability in meticulous operation, and major profit growth. In addition, Fiyta achieved initial breakthrough in its exploration of smart watches, and made steady progress in business model innovation.

During the Reporting Period, Fiyta adopted a restricted share incentive scheme on 12 November 2018, and completed granting 4,224,000 restricted shares to 128 employees on 28 January 2019. For details of the restricted share incentive scheme, please refer to the announcements of the Company dated 12 November 2018 and 28 January 2019.

International Engineering and Trading and Logistics Business

The Group is engaged in engineering contracting, cement engineering, mechatronics engineering, ship engineering and tendering agency businesses through its subsidiaries, namely Engineering Company, Beijing Company, AVIC Maritime, Weihai Shipyard and TED Company.

During the Reporting Period, affected by international economic and trading environment as well as industry cycle, the international engineering and trading and logistics business saw a major decline in profit, which was mainly manifested in the following aspects: (1) Under a sluggish global economy, there was a severe shortfall in newly signed orders for cement engineering, causing the dramatic fall in revenue. Taking into account the downbeat cement sector and the sliding corporate operating results, provision was made for impairment on goodwill of KHD Humboldt Wedag International AG (KHD) based on the principle of prudence, which resulted in a considerable loss in the cement and mechatronics engineering businesses; (2) Weihai Shipyard, affected by the stagnant shipping market, reflected low utilization of capacity, resulting in a marked decline in revenue. At the same time, Weihai Shipyard suffered heavy losses due to rising prices of raw materials and equipment, higher impairment on goodwill, greater amount of three items of expenses and exchange rate fluctuations; (3) in line with the principle of prudence, TED Company made bad debt provisions for the debts of investment enterprises accounted for using the equity method that incurred losses for three consecutive years and were unable to repay debts. Based on the aforementioned, the Group recorded revenue of approximately RMB14,191,301,000 from international engineering and trading and logistics segment for the year, representing an increase of approximately 7.19% over the previous year of RMB13,239,645,000. The loss amounted to approximately RMB1,466,825,000, representing an increase of approximately RMB1,167,598,000 as compared to approximately RMB299,228,000 for the previous year.

Faced by changes in international economic environment and difficulties in operation within the industry, the Group has been closely focused on upgrading core capabilities in international engineering and trading and logistics business. Discussions have taken place on business model to have a clear view of the direction of business development, with step-by-step implementation under renewed annual strategies, all in an effort to intensively work on internal operation and improve quality and efficiency. On top of that, three cross-enterprise professional committees have been established, covering project review, project operation and financial resources sharing, to coordinate overall strategic collaboration and enhance risk control. Furthermore, the Group continued with expansion of its key business and in key countries under the "Belt and Road" initiative. As a result, 17 new projects were entered into for the engineering contracting business over the year, with a contract amount of US$3.5 billion. By improving internal management, the Engineering Company managed to turn loss into profit for its daily operation, and ranked 118th among the world's top 250 international contractors compiled by the American Engineering News-Record (ENR) in 2018.

BUSINESS PROSPECTS

In 2019, against the backdrop of a complex and grim external environment and downward pressure on the economy, PRC still possesses enough resilience and enormous potential in its development, with economic momentum remaining positive in the long run. The current macro picture presents not just a challenge, but a strategic opportunity for development of the Group. As the PRC seeks to drive high-quality development of the manufacturing sector, the in-depth integration of advanced manufacturing and the modern service sector as well as the Belt and Road Initiative, the Group will gain even more room for development for its three core principal businesses, namely high-tech electronic products, retails and consumer products business as well as international engineering, trading and logistics. Based on the strategic orientation of its focus on principal businesses, the Group will continue to strip away its real estate business, which is expected to generate certain investment revenue. For details of investment in real estate, please refer to note 24 to the financial statements contained in the 2018 annual report. The Group will continue to promote the exit of real estate business.

In 2019, the Group will work on prospective subject studies to bolster its strategic leadership and enhance its ability to respond to the external environment. The Group will put into practice its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth", maintain and widen the leadership of its advantageous businesses, boost strategic and operational management capabilities, carry out various reforms and development initiatives with solid efforts, convert its development drive, enhance risk resistance and attain high-quality development with full force.

High-tech Electronic Products Business

As for high-tech electronic products business, the Group will keep on evolving towards the high-end part of the industrial chain, achieving breakthroughs in developing visionary products and constructing key projects at a faster rate, continuously improve its technological R&D and advanced manufacturing capabilities, and effectively improve the return on investment of major projects by improving the yield, upgrading technological process and smart manufacturing.

As for the FPD business, the Group will push for commercial success in its organic light-emitting diode (OLED) business, and ensure significant progress in ramping up the yield and production capacity of Wuhan G6 Phase I and the Shanghai G5.5 production line as well as the construction of Wuhan G6 Phase II. As for the PCB business, the Group will fully capitalize on the market opportunities of 5G construction, promote the construction of smart factories, enable the Wuxi substrate factory to connect production lines and commence production, and explore its transformation from a component manufacturer to a solution provider with the development into a moderately light asset model.

Retails and Consumer Products Business

As to retails and consumer products business, the Group will further its efforts to comprehend and cater to customer demand, strengthen customer-oriented philosophy and improve its adaptability in responding to the market. Efforts will be made to materialize the multibrand management platform and a comprehensive service provider model for luxury watches. Work will also be done to effectively raise organizational efficiency, and cultivate the capabilities in product and service innovation as well as brand operation.

Fiyta will reshape its brand at a deeper level, expand channels continuously and deepen brand and channel integration. Fiyta will also enhance business synergy, bolster cross-sector cooperation, build a business ecosystem centered on consumer demand with continuous efforts and innovate profit models to drive value growth. In the meantime, Fiyta will quicken its pace to develop new growth points such as smart watches and precision manufacturing.

International Engineering and Trading and Logistics Business

In 2019, in respect of international engineering and trading and logistics business, the Group will build on the established mechanism of international business collaboration, deepen business resource integration and standardize common business processes. Meanwhile, the Group will meet its responsibilities with more rigorous control over key links and improve the operation of continuously loss-making businesses in a practical manner so that such loss can be reduced and even turned into profit.

In respect of engineering contracting business, the Group will focus on core markets and key business, and continue to work intensively on Southeast Asia, Far East and the “Belt and Road” regions; vigorously expand the aviation infrastructure business and innovate business models; and spare no effort to facilitate smooth execution of major projects such as Angola International Airport and Southern Sri Lanka Highway. In respect of cement construction, the Group will intensify its market development, strive to enter into contracts for core projects, properly execute the ongoing projects, and ensure that the commenced projects deliver their expected profits; KHD will optimize its organizational structure, lower purchase cost, and boost the actual profit margin of project implementation. In respect of ship engineering business, the Group will commit intensive efforts to market segments, enlarge its market shares in such segments and raise the contribution margin ratio of its products.

LIQUIDITY AND CAPITAL RESOURCES

The Group adopts a sound treasury policy in cash and debt management. The management of the Group focuses on securing cash flow security, providing efficiency in the use of funds, preventing financial risks and ensuring the business development based on the strategic needs of the Company.

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately RMB8,526,106,000 (2017 (Restated): RMB13,381,444,000), which were mainly derived from the following sources: cash and bank deposits at the beginning of the year; bank loans, borrowings from related parties and revenue from operations.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2018	**2017**
	RMB'000	*RMB'000*
		(Restated)
RMB	4,846,172	8,129,703
USD	2,214,087	3,740,717
EUR	836,330	618,613
Others	629,517	892,411
	8,526,106	13,381,444

As at 31 December 2018, the total borrowings of the Group amounted to approximately RMB34,150,836,000 (2017 (Restated): RMB33,462,320,000) with annual interest rate ranging from 0.00% to 6.16% (2017 (Restated): 0.00% to 6.53%), of which current borrowings totalled approximately RMB15,095,016,000 (2017 (Restated): RMB16,641,191,000) and non-current borrowings totalled approximately RMB19,055,820,000 (2017 (Restated): RMB16,821,129,000). The total borrowings at fixed rates of the Group amounted to RMB12,533,900,000 (2017 (Restated): RMB14,697,156,000).

The carrying amounts of the borrowings are denominated in the following currencies:

	2018		2017	
	RMB'000	*Effective Annual Interest Rate*	*RMB'000* (Restated)	*Effective Annual Interest Rate* (Restated)
RMB	29,081,321	0.00%~5.87%	30,232,302	0.00%~6.53%
USD	2,351,933	3.05%~6.16%	1,880,248	0.54%~6.03%
EUR	1,458,028	1.00%~2.40%	989,495	2.11%~2.60%
Others	46,983		251,323	
	32,938,265		33,353,368	

During the year ended 31 December 2018, the capital expenditure of the Group amounted to approximately RMB8,765,244,000, the details of which are set forth below:

Company Name	**Project Name**	**Amount** *RMB'000*
Tianma Micro-electronics Co., Ltd	Project for the sixth-generation LTPS AMOLED production lines of Wuhan Tianma, and various technological transformation projects	7,298,483
Shennan Circuit Co., Ltd	Wuxi project for semiconductor IC substrates for communications purposes, the digital general multilayer PCB project, and various technological transformation projects	1,123,505
AVIC Weihai Shipyard Co., Ltd	Port infrastructure and equipment	35,756
AVIC Lutong Company Limited	Construction and maintenance of bitumen bases	25,891
Hunan AVIC Fastening Systems Co., Ltd.	Hengyang Songmu Industrial Park Project (equipment installation)	19,738
AVIC International Beijing Company Limited	Project infrastructure investment and aviation city renovation for the Group's company in East Africa	75,121

Company Name	Project Name	Amount
		RMB'000
China National Aero-Technology Guangzhou Company Limited	Rice-Pakistan Power Station Engineering, Procurement Construction (EPC) Project	12,743
China National Aero-Technology International Engineering Corporation	Capital expenditure on overseas project companies	34,267
AVIC International Xiamen Company Limited	AVIC Zijin Plaza (中航紫金廣場)	10,088
Fiyta Holdings Limited	Ancillary construction for the watch industrial base in Guangming New District, and other project	129,652
		8,765,244

PLEDGED ASSETS

As at 31 December 2018, bank loans of RMB6,347,533,000 (31 December 2017 (Restated): RMB2,533,085,000) of the Group were secured by the following:

	2018	**2017**
	RMB'000	*RMB'000*
		(Restated)
Investment properties	1,954,602	–
Buildings	1,156,502	1,167,465
Land use rights	622,392	375,821
Pledged bank deposits	7,094	–
Construction-in-progress	–	27,042
Inventories	–	4,688
	3,740,590	1,575,016

LOAN-TO-EQUITY RATIO

As at 31 December 2018, the Group's loan-to-shareholders' equity ratio (total borrowings divided by shareholders' equity) was 88.28% (2017 (Restated): 89.44%), whilst the liability-to-shareholders' equity ratio (total liabilities divided by shareholders' equity) was 161.83% (2017 (Restated): 161.96%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31 December 2018, the Company did not have entrusted deposits or overdue term deposits in any form.

EMPLOYEES AND REMUNERATION

As Tianma Company completed its asset restructuring in 2018, the number of the Group's employees increased to 61,874 (2017: 39,057), with staff costs increased to approximately RMB6,264,809,000 (2017 (Restated): RMB5,083,713,000). The Group has formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISKS

As the Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, the Group has been managing its foreign exchange risks and does not expect any material adverse impact. The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2017, the Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	2018 Outstanding amounts guaranteed *RMB'000*	2017 Outstanding amounts guaranteed *RMB'000*
Tianma Company	Subsidiary of the Group	Shanghai Tianma Organic Light-Emitting Technology Company Limited (the "Tianma Organic Company")* (上海天馬有機發光顯示技術有限公司)	Associate	–	757,386

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	2018 Outstanding amounts guaranteed *RMB'000*	2017 Outstanding amounts guaranteed *RMB'000*
Beijing Company	Subsidiary of the Group	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Third Party	105,260	126,168
Engineering Company	Subsidiary of the Group	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	–	53,900
				105,260	937,454

* For identification purpose only

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of Two Subject Companies Including Xiamen Tianma Company by Tianma Company and Proposed Placing of A Shares by Tianma Company

On 10 March 2017, Tianma Company entered into two separate framework agreements (the "Xiamen Tianma Framework Agreement" and the "Tianma Organic Framework Agreement", collectively, the"Framework Agreements") with (a) AVIC International, AVIC International Shenzhen Company Limited ("AVIC Shenzhen"), AVIC International Xiamen Company Limited ("Xiamen Company") and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("Xiamen Jincai") in relation to the acquisition of 100% equity interest in Xiamen Tianma Company; and (b) Shanghai Industrial Investment (Group) Co., Ltd. ("Shanghai Investment Company") and Shanghai Zhangjiang (Group) Co., Ltd. ("Shanghai Zhangjiang Company") in relation to the acquisition of 60% equity interest in Tianma Organic Company (the "Xiamen Tianma Acquisition" and the "Tianma Organic Acquisition", collectively, the "Acquisitions").

Pursuant to the Framework Agreements, the consideration for the Acquisitions will be fully settled by issue of consideration shares (the "Consideration Shares") to the vendors under the Framework Agreements upon completion of the respective Acquisitions at an issue price of RMB17.23 per A share, which was determined with reference to and not lower than the benchmarked price of the A shares, being 90% of the average price for the Acquisitions (for details please refer to the announcement of the Company dated 10 March 2017). The maximum number of Consideration Shares to be issued under the Xiamen Tianma Framework Agreement and the Tianma Organic Framework Agreement will be 613,821,008 and 39,267,579, respectively.

Based on the maximum number of Consideration Shares to be allotted and issued and the issue price of RMB17.23 per A share, it is expected that the maximum consideration for the Xiamen Tianma Acquisition and the Tianma Organic Acquisition will be RMB10,576,135,967.80 and RMB676,580,386.17, respectively.

The Acquisitions are not inter-conditional with each other.

Pursuant to the Framework Agreements, Tianma Company proposes to issue not more than 111,987,085 new A shares (the "Placing Shares") to not more than 10 investors (the "Proposed A Shares Placing"). The placing price of the Placing Shares shall not be lower than 90% of the average price for the Proposed A Shares Placing (for details please refer to the announcement of the Company dated 10 March 2017 and the circular of the Company dated 28 May 2017) and shall not be lower than the issue price of the Consideration Shares under the Framework Agreements, which is subject to the rules and regulations of CSRC and Shenzhen Stock Exchange. The proceeds to be raised under the Proposed A Shares Placing will be used for the construction of LTPS and colour filter (CF) production line of Xiamen Tianma Company, including expenses on purchase of equipment and engineering installation, which is in line with the requirement of CSRC. The success or failure of the Proposed A Shares Placing would not affect the Acquisitions and the Consideration Issue.

Assuming the Acquisitions have been completed, upon issue of the Consideration Shares (the "Consideration Issue") (assuming the maximum number of Consideration Shares as provided under the Framework Agreements are issued), the equity interest of the Company held in Tianma Company will be diluted from approximately 20.81% to approximately 15.98% (including 1.79% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company). If Tianma Company proceeds with the Proposed A Shares Placing after completion of the Acquisitions, the equity interests of the Company held in Tianma Company will be further diluted to approximately 15.16% (including 1.70% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company) of the enlarged issued share capital of Tianma Company (assuming 111,987,085 new A Shares are issued) upon completion of the Proposed A Shares Placing. Such dilution in interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing will constitute a deemed disposal of interest in Tianma Company held by the Company pursuant to Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Consideration Issue and the Proposed A Shares Placing exceed(s) 75%, the dilution of the Company's equity interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules and the transactions are therefore subject to announcement, reporting and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Acquisitions and the Proposed A Shares Placing have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 12 June 2017. For details, please refer to the announcement of the Company published on 10 March 2017, the circular despatched on 28 May 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 12 June 2017.

On 23 August 2017, Tianma Company entered into the following formal agreements (collectively, the "Formal Agreements") in relation to the Xiamen Tianma Acquisition and the Tianma Organic Acquisition as contemplated under the Framework Agreements:

(1) the asset acquisition agreement in relation to the acquisition of an aggregate of 100% equity interest in Xiamen Tianma Company with AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai at an aggregate consideration of RMB10,452,506,800 (equivalent to approximately HK$12,241,681,897) (the "Xiamen Tianma Formal Agreement"); and

(2) the asset acquisition agreement in relation to the acquisition of an aggregate of 60% equity interest in Tianma Organic Company with Shanghai Investment Company and Shanghai Zhangjiang Company at an aggregate consideration of RMB656,900,600 (equivalent to approximately HK$769,343,501) (the "Tianma Organic Formal Agreement").

Considering that Tianma Company has already distributed dividend for the year of 2016 on 26 July 2017, the issue price of the Consideration Shares under the Acquisitions and the proposed issue price of the Proposed A Shares Placing was adjusted to RMB17.17 per A share. The consideration under the Acquisitions will be settled in full by the issue of a total of 647,024,307 A shares by Tianma Company as Consideration Shares, and the number of Placing Shares will be not more than 110,658,124. For details, please refer to the announcement of the Company dated 23 August 2017.

Each of the Acquisitions and the Proposed A Shares Placing has been approved by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) and the general meeting of Tianma Company. For more details, please refer to the announcements of the Company dated 8 September and 15 September 2017.

On 6 December 2017, Tianma Company was informed by CSRC that the Consideration Issue and the Proposed A Shares Placing had been approved at the 68th conference meeting for 2017 of the Review Committee of Merger, Acquisition and Reorganisation of Listed Companies (上市公司併購重組審核委員會) of CSRC convened on 6 December 2017. For details, please refer to the announcement of the Company published on 6 December 2017.

On 15 January 2018, Tianma Company received a written approval from CSRC issued on 11 January 2018 on the Consideration Issue and the Proposed A Shares Placing with a validity period of twelve months from the date of issue.

For details, please refer to the Company's announcement published on 15 January 2018.

On 18 January 2018, Tianma Company completed the Acquisitions of two subject companies, namely Xiamen Tianma Company and Tianma Organic Company. On the date of completion of the Acquisitions, each of Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) ("Shanghai Tianma") and Xiamen Tianma Company became wholly-owned subsidiaries of Tianma Company; hence, the entrusted management agreement signed between Shanghai Tianma and Xiamen Tianma Company on 4 March 2016 has been terminated. Tianma Company issued an aggregate of 647,024,307 A shares (equivalent to the total number of Consideration Shares under the Acquisitions) to six transferees, including AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai. Such A shares were listed on the Shenzhen Stock Exchange on 2 February 2018. For more details, please refer to the announcements of the Company published on 22 January 2018 and 31 January 2018.

On 12 April 2018, the closing price of the Consideration Shares fell below the issue price, which is RMB17.17 per A share, in consecutive 20 trading days within six months after completion of the Xiamen Tianma Acquisition. According to the undertaking made by AVIC International, AVIC Shenzhen and Xiamen Company, the lock-up period of 89,488,555 A shares, 93,141,147 A shares and 36,525,940 A shares held by AVIC International, AVIC Shenzhen and Xiamen Company respectively, shall automatically be extended for six months. For more details, please refer to the announcement of the Company published on 12 April 2018.

On 10 September 2018, Tianma Company entered into two separate supplemental agreements (the "Supplemental Agreements") with (a) AVIC International, AVIC Shenzhen, Xiamen Company, and Xiamen Jincai (the "Xiamen Tianma Supplemental Agreement"); and (b) Shanghai Investment Company and Shanghai Zhangjiang Company (the "Tianma Organic Supplemental Agreement") respectively, in relation to the price determination and placing price of the Placing Shares for the Proposed A Shares Placing, pursuant to which the term in the Framework Agreements that "the placing price of Placing Shares shall not be lower than the issue price of the Consideration Shares" shall be deleted.

As the entering into of the Xiamen Tianma Supplemental Agreement and the Tianma Organic Supplemental Agreement constitutes a material variation to the terms of Proposed A Shares Placing under the Framework Agreements previously approved by the independent shareholders on 12 June 2017, the Company made an announcement pursuant to the requirements under Rule 14.36 of the Listing Rules with regard to the variation.

For details, please refer to the announcement published on 10 September 2018, the circular published on 13 November 2018 and the announcement of written shareholders' approval published on 28 September 2018 by the Company.

With the receipt of written approval from CSRC for Tianma Company to issue Consideration Shares for the Acquisitions of two subject companies including Xiamen Tianma Company and the Proposed A Shares Placing, on 2 February 2018, Tianma Company completed the Acquisitions and Consideration Issue.

Due to changes and fluctuations in the environment of the capital market, the Proposed A Shares Placing could not be completed within twelve months from the date of issue of written approval by CSRC which was 11 January 2018, and therefore, the validity period for the written approval from CSRC expired automatically on 10 January 2019. For details, please refer to the announcement of the Company published on 10 January 2019 and the circular of the Company published on 13 November 2018.

2. Proposed Mandate in Relation to the Possible Major Disposal and Connected Transaction

On 17 May 2017, the Board resolved to dispose of 47.12% equity interest (the "AVIC Vanke Interest") in AVIC International Vanke Company Limited ("AVIC Vanke") held by the Company. As the Company and AVIC International both are state-owned enterprises and the AVIC Vanke Interest constitutes state-owned assets, the disposal of the AVIC Vanke Interest by the Company (the "Proposed Disposal") is required to be conducted through public tender via an equity exchange in accordance with the relevant laws and regulations of the governing the disposal of state-owned assets. It was proposed that the Company would, jointly with AVIC International, conduct the disposal of the 60% interest in AVIC Vanke in aggregate in relation to their respective 47.12% and 12.88% equity interest in AVIC Vanke through CBEE.

Based on the preliminary appraised value of AVIC Vanke as at 31 December 2016, it was expected that the minimum bidding price for the Proposed Disposal shall be in the range of RMB1,780,440,000 to RMB1,876,680,000. The minimum bidding price of the AVIC Vanke Interest will be determined based on the appraised value of AVIC Vanke with reference to prevailing market prices, subject to the approval from relevant regulatory authorities of state-owned assets in the PRC.

The final consideration will depend on the final bidding price offered by the successful bidder for the AVIC Vanke Interest, but will in any event be no less than the relevant minimum bidding price.

The Proposed Disposal was approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 October 2017. For details, please refer to the announcements of the Company dated 17 May 2017 and 18 May 2017, the circular of the Company dated 22 September 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 11 October 2017.

On 23 October 2017, the draft appraisal report of AVIC Vanke in relation to the Proposed Disposal was approved by Aviation Industry Group and the final appraised value of the 100% equity interest in AVIC Vanke was RMB3,847,131,600, pursuant to which, the minimum bidding price for the Proposed Disposal was set at RMB1,812,768,410. On 3 November 2017, the formal process of public tender in respect of the Proposed Disposal was set to take place at China Beijing Equity Exchange ("CBEE") on 6 November 2017 in accordance with the relevant requirements applicable to the transfer of state-owned equity interest. The minimum bidding price for the Proposed Disposal was RMB1,812,768,410, which was determined with reference to the appraised value of AVIC Vanke approved by Aviation Industry Group.

On 2 January 2018, the Company and AVIC International entered into an equity transaction agreement with Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) in respect of the Proposed Disposal and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960. The consideration for the disposal of AVIC Vanke Interest was RMB1,844,181,743.25. Upon completion of the Proposed Disposal, the Company ceased to have any equity interest in AVIC Vanke. For details, please refer to the announcement of the Company published on 2 January 2018.

3. Connected Transaction – Potential Disposal of 24.5% Equity Interest in AVIC Construction Engineering through Public Tender

On 29 November 2017, the Board resolved to approve Engineering Company (a wholly-owned subsidiary of the Company) and AVIC Shenzhen to conduct the disposal of the 75.5% interest in AVIC Construction Engineering Company Limited ("AVIC Construction Engineering") in aggregate in relation to their respective 24.5% and 51% equity interest in AVIC Construction Engineering through CBEE. Based on the appraised value of AVIC Construction Engineering as at 30 June 2017, it is expected that the minimum bidding price for the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company (the "Potential Disposal") would not be lower than RMB39,440,500.

The public tender process for the Potential Disposal commenced on 30 November 2017. On 23 January 2018, Engineering Company and AVIC Shenzhen entered into an equity transaction agreement with Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) ("Shenzhen Lian Heng") in respect of the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200. The consideration for the disposal of 24.5% equity interest in AVIC Construction Engineering was RMB39,440,520.

On 9 February 2018, AVIC Construction Engineering completed assets transfer and the registration for such industrial and commercial changes. Upon completion of the Potential Disposal, the Engineering Company no longer holds any equity interest in AVIC Construction Engineering. For details, please refer to the announcement published by the Company on 23 January 2018.

4. Discloseable and Connected Transaction – Potential Disposal of Equity Interest and Creditor's Rights of Chengdu Jujin by Chengdu Raise

On 27 June 2018, the Board announced that Chengdu Raise, a non-wholly owned subsidiary of the Company, would conduct the formal process of public tender in relation to the disposal (the "Chengdu Jujin Disposal") of (i) its 20% equity interest in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("Chengdu Jujin") (the "Chengdu Jujin Equity Interest") and (ii) the creditor's rights in Chengdu Jujin held by it (the "Chengdu Jujin Creditor's Rights") (collectively, the "Chengdu Jujin Interest") through CBEE after the preliminary disclosure.

It was proposed that Chengdu Raise would, jointly with Beijing Raise Science Co., Ltd. ("Beijing Raise"), conduct the disposal of their respective 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin through CBEE. Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will no longer have any interests in Chengdu Jujin.

Based on (i) the preliminary appraised value of Chengdu Jujin as at 31 October 2017 and (ii) the audited financial statements of Chengdu Jujin for the year ended 31 December 2017, the preliminary appraised value of Chengdu Jujin Equity Interest is approximately RMB229,087,240 and the audited result for Chengdu Jujin Creditor's Rights is approximately RMB190,000,000. Therefore, the preliminary minimum bidding price for the Potential Disposal shall be approximately RMB419,087,240. As disclosed in the announcement of the Company dated 26 September 2018, the final minimum bidding price for the Chengdu Jujin Disposal shall be RMB426,886,221, which was determined with reference to the Chengdu Jujin Creditor's Rights and the appraised value of the entire equity interest of Chengdu Jujin approved by Aviation Industry Group.

The Chengdu Jujin Disposal was approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 August 2018. For details, please refer to the announcements of the Company published on 15 June 2018 and 27 June 2018, the circular of the Company dated 27 July 2018 and the poll results announcement of the extraordinary general meeting of the Company dated 13 August 2018.

The formal process of the public tender in respect of the Chengdu Jujin Disposal, which had been approved by the independent shareholders on 10 August 2018, expired on 22 November 2018. During the publication period for the public tender which commenced on 28 September 2018 and lasted for 20 Business Days, there was no potential bidder indicating interest in purchasing the Chengdu Jujin Interest.

On 28 December 2018, the Board decided to conduct a new public tender in relation to the disposal of Chengdu Jujin Interest and re-comply with the Listing Rules in relation to the disposal of Chengdu Jujin Interest.

Based on (i) the new preliminary appraised value of Chengdu Jujin as at 31 August 2018 and (ii) the audited financial statements of Chengdu Jujin for eight months ended 31 August 2018, the new preliminary appraised value for Chengdu Jujin Equity Interest is approximately RMB204,242,160 and the audited result for Chengdu Jujin Creditor's Rights including interest is approximately RMB197,798,972. Therefore, for the purpose of proceeding with the Chengdu Jujin Disposal, the Board decided that the new preliminary minimum bidding price for the Chengdu Jujin Disposal shall be approximately RMB402,041,132.

The final minimum bidding price for the Chengdu Jujin Disposal will be determined with reference to the market price and subject to the final appraised value of Chengdu Jujin, but will in any event be no less than the new preliminary minimum bidding price. As disclosed in the announcement of the Company dated 19 February 2019, the final minimum bidding price is RMB403,998,972, which was determined with reference to the Chengdu Jujin Creditor's Rights and the new appraised value of the entire equity interest of Chengdu Jujin.

The final consideration will depend on the final bidding price offered by the successful bidder for the Chengdu Jujin Interest, but will in any event be no less than the new preliminary minimum bidding price.

The Potential Disposal was approved by the independent shareholders of the Company on the extraordinary general meeting held on 19 February 2019. For details, please refer to the announcement of the Company dated on 28 December 2018, the circular of the Company dated 31 January 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 19 February 2019.

5. Connected Transactions – Capital Increase Agreement

Upon completion of the Capital Increase, (i) the registered capital of AVIC Xifei will be increased from RMB1.9 billion to RMB8.622 billion; and (ii) the equity interest of AVIC Xifei will be held as to approximately 11.5494%, 18.8895%, 20.7889%, 2.3540%, 1.7655%, 1.7655%, 1.1770%, 18.6114% and 23.0988% by Aviation Industry Group, AVIC Aircraft, Xi'an Aircraft Industry, AVIC Airborne Systems, the Company, AVIC International Aviation Development, AVIC Aviation Electronics Systems, Shaanxi Aviation Industry Development and Xi'an Industrial Investment, respectively. Accordingly, the equity interest in AVIC Xifei held by the Company will be diluted from 7.895% to 1.7655%.

Pursuant to section 34 of the Company Law of the PRC, the Company has the right of first refusal in relation to the Capital Increase. As the Company decided not to exercise the option to subscribe for the increased registered capital of AVIC Xifei, the waiver of right of first refusal by the Company in relation to the Capital Increase also constitutes a connected transaction pursuant to Rule 14A.24(2)(b) of the Listing Rules.

6. Connected Transaction – Disposal of 60% Equity Interest in AVIC International Simulation Technology Services Co., Ltd.

On 24 October 2018, the Company (as vendor) and AVIC International (as purchaser) entered into an equity transfer agreement (the "Equity Transfer Agreement"), pursuant to which the Company agreed to sell and AVIC International agreed to purchase 60% equity interest in AVIC International Simulation Technology Service Co., Ltd. held by the Company at the consideration of RMB31,611,120.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED 30 JUNE 2019

Business Review

The Reporting Period witnessed an intricate international economic environment where international business was faced by various risks and uncertainties, while domestic demands experienced a decline. Coupled with the effect of trade frictions, investment, consummation and exportation experienced a weak rebound, and the growth of domestic economic slowed down. Confronted by such complex and grim external environment, the Group quickened its pace to strip away the real estate business, with reform and restructuring underway to promote value growth within the corporate. During the Reporting Period, we recorded the revenue from principal activities of approximately RMB26,871,678,000, representing an increase of approximately 7.6% over the same period of the previous year of RMB24,983,070,000. The earnings attributable to shareholders of the Company (net of minority interests) amounted to approximately RMB91,576,000, representing a decrease of approximately 33.5% over the same period of the previous year of RMB137,778,000.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Group is engaged in research and development ("R&D"), design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During the Reporting Period, the Group's revenue generated from the high-tech electronic products business and net profit performance are as follows:

	Revenue from January to June 2019 *RMB'000*	**Year-on-year increase**	**Net profit from January to June 2019** *RMB'000*	**Year-on-year increase**
High-tech electronic products business	19,147,073	13.2%	1,080,011	-3.4%
of which: FPD	14,472,593	4.9%	609,472	-24.3%
PCB	4,674,480	49.9%	470,539	50.6%

(1) FPD

Tianma Company continued to focus on the market development of small and medium-sized FPDs, with products mainly applied to the mobile smart terminal market such as smartphones and tablets as well as professional displays such as those for in-vehicle products, medical service, POS terminals and human machine interface, and actively developed the Internet of Things/new applications such as augmented reality, virtual reality, unmanned flying vehicles and robotics.

During the Reporting Period, the competition in the small and medium-sized display market is increasingly fierce. Facing the difficult market environment, Tianma Company continued to optimize its product structure, enhance the transformation of high-value added products, and increase the market share of high-profitability professional display products such as for middle to high-end smartphones, in-vehicle products and medical service. In the intelligent terminal market, our upgrade, iteration, mass production and shipment of new liquid crystal display (液晶顯示器) full displays such as water-drop screen and blind-hole screen took the lead in the technology for full-display products, supporting the launch of various mobile intelligent terminal brands. In particular, we saw a continuous ramp-up in mass production at Phase I of Low Temperature Poly-silicon Active-matrix Organic Light-emitting Diode (低溫多晶矽有源矩陣有機發光二極體) ("LTPS AMOLED") project (Wuhan) and the accelerated construction of Phase II Project (Wuhan). In the professional display market, in-vehicle products have become the fastest-growing field of Tianma Company. During the Reporting Period, owing to its continuous increase in R&D investment and recruitment, Tianma Company recorded an increase in R&D expenses compared with the same period of last year, together with a decline in net profit.

(2) PCB

SCC's PCB products cover middle to high-end multilayer PCBs, packaging substrate and printed circuit board assembly ("PCBA"), which are mainly applied to high-tech fields such as telecommunications, medical service, industrial control, aviation and servers.

During the Reporting Period, driven by the expansion of 4G networks and 5G base station developments, downstream markets such as communications and servers continued to display a positive trend and the demands continued to increase. Accordingly, SCC achieved an increase in both revenue and net profit. SCC actively grasped the communications market opportunities to maintain the first-mover advantage with ample orders, with the increase in PCB business output leading to a significant year-on-year increase in revenue; PCBA continued to consolidate and enhance the market segment advantages, attaining great growth in business output; and the packaging substrate business of Wuxi project proceeded smoothly and commenced trial production in June. Meanwhile, work was done to vigorously promote the construction, automation and information transformation of professional factories, with a view to raising labor and equipment efficiency, which resulted in the continuously improving profitability of the Company. On 18 October 2019, the application for the proposed issuance of A share convertible bonds by SCC (the "Proposed Issuance") has been approved by the Issuance Review Committee of China Securities Regulatory Commission ("CSRC"). The funds raised under the Proposed Issuance will mainly be used in the general high-speed and high-density multilayer PCBs (Phase II) project, which will help SCC to consolidate its leading position in the PCB field and further enhance its advanced manufacturing advantages.

Retail and Consumer Products Business

In respect of the retails and consumer products business, the Group is engaged in the production and brand operation of middle to high-end watches as well as the chain sales and services of luxury watches through its subsidiary, Fiyta. During the Reporting Period, the revenue generated from the retails and consumer products business of the Group and net profit performance are as follows:

	Revenue from January to June 2019 *RMB'000*	**Year-on-year increase**	**Net profit from January to June 2019** *RMB'000*	**Year-on-year increase**
Retails and consumer products	1,770,959	5.4%	127,118	13.1%

During the Reporting Period, the growth of domestic consumer market continued to slow down, with a year-on-year increase of 8.4% recorded in the total retail sales of social consumer products. Under the growth divergence in the watches and clocks industry, the growth of high-end watches was relatively better, while the mid-end watches and domestic watches faced greater pressure of growth. During the Reporting Period, Fiyta finished restructuring its brand portfolios and implemented comprehensive cost and expenses control, which resulted in effective control of the expenses, a significant decline in purchase costs, and higher profit. In respect of the luxury watches retail business, the brand channel synergies have been boosted through training, which led to the increase in frontline sales as reflected in a year-on-year increase of 7.4% in yield per unit for comparable stores, driving the increase in Fiyta's revenue.

International Engineering and Trading and Logistics Business

The Group is engaged in engineering contracting, mechatronics engineering, ship engineering and tendering agency businesses through its subsidiaries, namely Engineering Company, Beijing Company, AVIC Maritime, Weihai Shipyard, Guangzhou Company, Xiamen Company and TED Company.

During the Reporting Period, affected by international economic and trading environment as well as industry cycle, the international engineering and trading and logistics business saw a major decline in revenue and net profit, which was mainly manifested in the following aspects: (1) under a sluggish global economy, the revenue from the international engineering business was lower than expected as the Angola airport project has not officially commenced according to the schedule; (2) Weihai Shipyard has implemented a transformation strategy, focusing on the production of high value-added ship types. Currently, among the nine orders for STENA high-end Ro-Pax vessels on hand, four have commenced construction and have recorded a significant growth in revenue. However, as the prices of raw materials and equipment rose higher than expected and the project expenditure increased, Weihai Shipyard recorded further widened losses as compared to the same period last year; (3) RED Company made its bad debt provisions in accordance with the principle of prudence. To sum up, the revenue generated from the international engineering and trading and logistics business was approximately RMB5,557,722,000, representing a decrease of approximately 7.3% over the same period of the previous year of approximately RMB5,995,053,000. The loss was approximately RMB548,978,000, representing an increase of approximately RMB330,743,000 as compared to the loss of approximately RMB218,235,000 for the previous year.

In addition, in order to further focus on principal business, reduce loss-making businesses, and improve profitability, the Group transferred its 20% equity interest and shareholder's loan in Chengdu Jujin Trading Co., Ltd. ("Chengdu Jujin"). In addition, the Company entered into agreements with CMOEI in Shenzhen and CMSK, respectively, transferring the 69.77% equity interest and shareholder's loan in Weihai Shipyard and the 22.35% equity interest in AVIC Sunda Holding Company Limited ("AVIC Sunda") held by the Company. The above transfers were beneficial for the Company to reduce its financial risks and for the Group to focus its resources on the principal business, improve operating results and enhance the level of investment return.

BUSINESS PROSPECTS

Looking ahead, the second half of 2019 will see global economic fluctuation and the further increase in downward pressure on domestic economy. Despite the external challenges, the Group will maintain its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth," with an aim to seize market opportunities and enhance the order acquisition capability, accelerate market expansion and project execution, strive to optimize the product structure and adjust the customer structure, as well as speed up the operational improvement of or withdrawal from loss-making businesses. Meanwhile, we will further sharpen our focus on principal business and strip away the real estate business through innovative business models to achieve our whole-year operational target.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Group will closely monitor the changes in external environment and markets, continue to improve its market share, strengthen connections with customers in its advantageous fields, reinforce the expansion of new markets and new customers, and lay a solid foundation for reserving orders for new factories. The Group will continue to optimize its product structure, and effectively integrate market expansion with customer classification management to increase customer coverage and penetration of high value-added products. Tianma Company will seize the opportunity to initiate the re-finance project in the capital market, to accelerate the phase II construction of G6 AMOLED production line of Wuhan Tianma Microelectronics Co., Ltd. ("Wuhan Tianma") and improve the mass production capacity and quality. SCC will proactively promote its project in relation to the Proposed Issuance of A share convertible bonds to further consolidate its leading position in the PCB field.

Retails and Consumer Products Business

With deep combination of consumption demands of the customers, Fiyta will accelerate the optimization of its existing channel structures and increase yield per unit, continue to facilitate the cultivation of new brands and expansion of new business and new markets. It will also continue to strengthen the cost and expense control and improve operating efficiency, speed up the execution of smart retail projects in an orderly manner, and fully promote the continuous improvement of operating results.

International Engineering and Trading and Logistics Business

In the second half of 2019, the international engineering business of the Group will speed up the construction progress of its key projects, focus on the implementation of the Angolan airport project, and promote the early delivery of Algeria project. In respect of the mechatronics engineering business, we will further strengthen our operations control, vigorously promote the execution of key projects, and endeavor to improve the operation as early as possible. Regarding the cement engineering business, we will focus on the key markets, spare no efforts to obtain orders, sign new contracts for the commencement of cement and building materials and petrochemical engineering projects, and facilitate the execution of projects on hand in an orderly manner. For the trading and logistics business, we will continue with the equity transfer of Weihai Shipyard and simultaneously implement the equity transfer of our associate, AVIC Sunda.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the total cash and cash equivalents of the Group amounted to approximately RMB10,116,144,000, including cash in Hong Kong Dollars, US Dollars, Japanese Yen, and Korean Won, which have been converted into Renminbi (31 December 2018: RMB8,526,106,000). The Group's total current borrowings amounted to approximately RMB15,494,269,000; and total non-current borrowings amounted to approximately RMB19,603,104,000 with an annual interest rate ranging from 0.79% to 6.16%. The Group has further strengthened and perfected its regulations in respect of the management of tradable financial assets, and formulated the procedures of decision-making, implementation and risk control.

During the Reporting Period, our capital expenditure amounted to approximately RMB3,641,471,000, the details of which are set forth below:

Company Name	**Project Name**	**Amount of Expenditure** *(Unit: RMB'000)*
Tianma Company	Wuhan Tianma – G6 LTPS AMOLED production line	1,851,760
SCC	PCB substrate business technological transformation projects in 2019	639,324
Tianma Company	Production capacity improvement and technological transformation projects, etc.	609,866
Tianma Company	Xiamen Tianma – G6 LTPS and colored filter production line	421,707
Tianma Company	Tianma Organic Company – G5.5 AMOLED mass production line	68,023
Fiyta	Ancillary construction for the watch industrial base in Guangming New Area	26,650
Weihai Shipyard	Breakwater and supplies storage, etc.	10,242
Lutong Company	Construction and maintenance of the bitumen base in Tianjin	8,590
AFM Company	Hengyang Songmu Industrial Park Project	1,504
AFM Company	Phase I of the sewage treatment station project	3,805

PLEDGED ASSETS

As of 30 June 2019, certain subsidiaries of the Group had secured bank loans totaling approximately RMB6,783,837,000 (As of 31 December 2018: approximately RMB6,347,533,000). The loans were secured by the plants, buildings and land use rights of the Group. The details are as follows:

Name of Company	Name of Collateral	Type of Borrowings	Net Value of the Collaterals	Amount of Expenditure
				(Unit: RMB'000)
Beijing Company	Land of the AVIC International Beijing Aviation City Project and the buildings thereon	Pledged against long-term borrowing	546,900	620,500
Beijing Company	AVIC Industrial Park's real estates in Beijing Yizhuang Economic-Technological Development Zone	Pledged against long-term borrowing	75,831	208,587
Montres Chouriet SA	Real estates in Switzerland	Pledged against long-term borrowing	14,609	4,763
Tianma Company	Tianlong real estate and its land use rights	Pledged against long-term borrowing	224,914	500,000
Tianma Company	Land of the Wuhan Tianma G6 Project	Pledged against long-term borrowing	363,887	4,400,000
Tianma Company	Organic light-emitting house buildings	Pledged against long-term borrowing	322,588	284,450
Wuxi Shennan Circuits Co., Ltd. (無錫深南電路有限公司)	Houses and buildings and their land use rights	Pledged against long-term borrowing	644,023	480,314
Hunan AVIC Fastening Systems Company Limited (湖南中航緊固系統有限公司)	Houses and buildings and their land use rights	Pledged against long-term borrowing	143,432	34,000

LOAN-TO-SHAREHOLDERS' EQUITY RATIO

As of 30 June 2019, the Group's loan-to-shareholders' equity ratio (bank borrowings divided by shareholders' equity) was 89.19% (As of 31 December 2018: 85.15%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the Reporting Period, the Company had no entrusted deposit or overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As of 30 June 2019, the Group had approximately 59,969 (the corresponding period of 2018: 59,432) employees, with employee-related costs of approximately RMB3,546,030,000 (the corresponding period of 2018: RMB2,971,920,000). The Group has formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISKS

As the Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, the Group has been managing its foreign exchange risks and does not expect any material adverse impact.

CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, the Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	30 June 2019 Outstanding amounts guaranteed *(RMB'000)*	31 December 2018 Outstanding amounts guaranteed *(RMB'000)*
Beijing Company	Subsidiary of the Group	Tuofu Yuanyang Shipping Company Limited (拓富遠洋海運有限公司)	Independent third party	89,200	105,260

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of Two Subject Companies Including Xiamen Tianma by Tianma Company and Proposed Placing of A Shares by Tianma Company

On 10 September 2018, Tianma Company entered into two separate supplemental agreements (the "Supplemental Agreements") with (a) AVIC International, AVIC Shenzhen, Xiamen Company, and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) (the "Xiamen Tianma Supplemental Agreement"); and (b) Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) and Shanghai Zhangjiang (Group) Co., Ltd. (上海張江(集團)有限公司) (the "Tianma Organic Supplemental Agreement") respectively, in relation to the price determination and placing price of the placing shares for the proposed A shares placing, pursuant to which the term in the framework agreements dated 10 March 2017 that "the placing price of Placing Shares shall not be lower than the issue price of the Consideration Shares" shall be deleted.

For details, please refer to the announcement published on 10 September 2018, the circular published on 13 November 2018 and the announcement of written shareholders' approval published on 28 September 2018 by the Company.

With the receipt of written approval from China Securities Regulatory Commission (中國證券監督管理委員會) (the "CSRC") for Tianma Company to issue consideration shares for the acquisitions of two subject companies including Xiamen Tianma Microelectronics Company Limited (廈門天馬微電子有限公司) (the "Xiamen Tianma") and the proposed A shares placing, on 2 February 2018, Tianma Company completed the acquisitions and consideration issue.

Due to changes and fluctuations in the environment of the capital market, the proposed A shares placing could not be completed within twelve months from the date of issue of written approval by CSRC which was 11 January 2018, and therefore, the validity period for the written approval from CSRC expired automatically on 10 January 2019. For details, please refer to the announcement of the Company published on 10 January 2019 and the circular of the Company published on 13 November 2018.

2. Discloseable and Connected Transaction – Potential Disposal of Equity Interest and Creditor's Rights of Chengdu Jujin by Chengdu Raise

On 27 June 2018, the Board announced that Chengdu Raise, a non-wholly owned subsidiary of the Company, would conduct the formal process of public tender in relation to the disposal (the "Chengdu Jujin Disposal") of (i) its 20% equity interest (the "Chengdu Jujin Equity Interest") in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("Chengdu Jujin") and (ii) the creditor's rights in Chengdu Jujin held by it (the "Chengdu Jujin Creditor's Rights") (collectively, the "Chengdu Jujin Interest") through China Beijing Equity Exchange (北京產權交易所) (the "CBEE") after the preliminary disclosure.

It was proposed that Chengdu Raise would, jointly with Beijing Raise Science Co., Ltd. ("Beijing Raise"), conduct the disposal of their respective 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin through CBEE. Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will no longer have any interests in Chengdu Jujin.

For details, please refer to the announcements of the Company published on 15 June 2018 and 27 June 2018, the circular of the Company dated 27 July 2018 and the poll results report of the extraordinary general meeting of the Company dated 13 August 2018.

The formal process of the public tender in respect of the Chengdu Jujin Disposal, which had been approved by the independent shareholders on 10 August 2018, expired on 22 November 2018. During the publication period for the public tender which commenced on 28 September 2018 and lasted for 20 business days, there was no potential bidder indicating interest in purchasing the Chengdu Jujin Interest.

On 28 December 2018, the Board decided to conduct a new public tender in relation to the disposal of Chengdu Jujin Interest and re-comply with the Listing Rules in relation to the disposal of Chengdu Jujin Interest.

For details, please refer to the announcement of the Company dated 28 December 2018, the circular of the Company dated 31 January 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 19 February 2019.

The formal process of the public tender in respect of the Chengdu Jujin Disposal under the new appraisal approved by the independent shareholders on 19 February 2019 had been commenced on 21 February 2019. On 10 April 2019, Chengdu Raise and Beijing Raise entered into the Equity Transaction Agreement (the "Equity Transaction Agreement") with Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) in respect of the disposal of Chengdu Jujin Interest held by Chengdu Raise and the disposal of the interest and rights in Chengdu Jujin held by Beijing Raise which includes the 80% equity interest in Chengdu Jujin held by Beijing Raise and creditor's rights in Chengdu Jujin held by Beijing Raise at an aggregate consideration of RMB2,213,869,547. The consideration for the disposal of Chengdu Jujin Interest is RMB509,198,972 among which the consideration for Chengdu Jujin Equity Interest is RMB311,400,000. The consideration for the disposal of the interest and rights held by Beijing Raise is RMB1,704,670,575 among which the consideration for 80% equity interest in Chengdu Jujin held by Beijing Raise is RMB1,245,600,000.

For the purpose of guaranteeing the payment of consideration by Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司), on 10 April 2019 Chengdu Raise, Beijing Raise, Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) and Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) entered into the payment guarantee agreement (the "Payment Guarantee Agreement"), pursuant to which Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) guaranteed to pay the guaranteed payment which relates to the remaining consideration owed by Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) to

Chengdu Raise and Beijing Raise. The term of the Payment Guarantee Agreement shall be two years after the expiration of the performance period for the obligations of Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) under the Equity Transaction Agreement.

Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will cease to have any equity interest in Chengdu Jujin, for details please refer to the announcement of the Company dated 10 April 2019.

3. Major Transaction – Possible Major Transaction Involving Proposed Issuance of A Share Convertible Bonds by SCC: Deemed Disposal of Interest in SCC by the Company

On 8 April 2019, the board of directors of SCC (a non-wholly owned subsidiary of the Company) had resolved to issue convertible bonds of SCC in the maximum amount of RMB1,520,000,000, which was calculated at the initial conversion price of RMB57.90 before ex-rights and ex-dividend), the convertible bonds of SCC can be converted to a maximum of 26,252,158 conversion shares (before ex-rights and ex-dividend).

During the Reporting Period, the Company directly holds 69.05% equity interest in SCC. Following the completion of the Proposed Issuance and assuming the maximum amount of the convertible bonds of SCC were successfully placed in full and full conversion of the convertible bonds of SCC at the initial conversion price, the Proposed Issuance will have the effect of diluting the Company's percentage share of the issued share capital of SCC from approximately 69.05% to approximately 63.19%, which will constitute a deemed disposal of the Company.

SCC had received the Reply on Issues related to the Issuance of convertible corporate bonds by SCC (關於深南電路發行可轉換公司債券有關問題的批覆) issued by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") on 30 May 2019. At the shareholder's meeting of SCC held on 6 June 2019, the Proposed Issuance had been approved by the shareholders of SCC.

On 26 June 2019, SCC had received the acceptance notice issued by CSRC related to the application materials submitted by SCC in relation to the Proposed Issuance.

On 26 July 2019, SCC had received the Notice of Suspension of Review of the Administrative Approval Application from CSRC (No.191509) (《中國證監會行政許可申請中止審查通知書》(191509號)). As the audit institution engaged by SCC for the Proposed Issuance was investigated by the CSRC for allegedly violating the securities laws and regulations of the People's Republic of China (the "PRC") in handling audit matters of other listed companies and the investigation has not been closed, in consideration of the fact that the above matters are regulated by provisions relating to the suspension of review under the Regulations on the Implementation of the Administrative Approval of CSRC (《中國證監會行政許可實施程序規定》), the CSRC decided to suspend the application of SCC for the Proposed Issuance.

On 19 August 2019, SCC received the Notice of Resumption of Review of the Administrative Approval Application From CSRC (No. 191509) (《中國證監會行政許可申請恢復審查通知書》(191509號)) that the CSRC decided to resume the review of the application of SCC for the Proposed Issuance in accordance with the relevant provisions of the Regulations on the Procedures for the Implementation of the Administrative Approval of CSRC (《中國證監會行政許可實施程序規定》). On 18 October 2019, the Issuance Review Committee of CSRC has reviewed the the application for the Proposed Issuance of SCC. According to the meeting results of the Issuance Review Committee of CSRC, the application of SCC for the Proposed Issuance has been approved. At the Latest Practicable Date, SCC has not received the formal approval in writing.

For details, please refer to the announcements of the Company dated 8 April 2019, 24 April 2019, 29 April 2019, 30 May 2019, 6 June 2019, 26 June 2019, 26 July 2019, 19 August 2019 and 20 October 2019, and the circular dated 20 June 2019.

4. Major Transaction – Disposal of 69.77% Equity Interest and Shareholder's Loan in Weihai Shipyard; and Disposal of 22.35% Equity Interest in AVIC Sunda

(I) Weihai Shipyard Disposal

On 26 April 2019, the Company entered into the Weihai Shipyard equity transaction agreement (the "Weihai Shipyard Equity Transaction Agreement") with CMOEI, pursuant to which the Company agreed to transfer 69.77% equity interest in Weihai Shipyard and the shareholder's loan (the "Weihai Shipyard Shareholder's Loan") owed by Weihai Shipyard to the Company (the "Weihai Shipyard Disposal") to CMOEI at the consideration of not exceeding RMB620,000,000, which comprises (i) RMB1, being the consideration for the 69.77% equity interest in Weihai Shipyard; and (ii) not exceeding RMB619,999,999, being the consideration for the Weihai Shipyard Shareholder's Loan. Further. As the Company has provided a guarantee in a total amount of RMB1,660,000,000 for Weihai Shipyard. Pursuant to the Weihai Shipyard Equity Transaction Agreement, CMOEI or its actual controller will provide a bank guarantee letter and guarantee letter from China Merchants Group Limited (招商局集團有限公司) to execute a counter-guarantee in favour of the Company.

Upon completion of the Weihai Shipyard Disposal, the Company will no longer hold any equity interest in Weihai Shipyard and Weihai Shipyard will cease to be a subsidiary of the Company.

(II) AVIC Sunda Disposal

On 26 April 2019, the Company entered into the equity transfer agreement with CMSK, pursuant to which the Company agreed to transfer 149,087,820 A shares in AVIC Sunda (representing 22.35% of the issued share capital of AVIC Sunda) to CMSK at the consideration of RMB1,334,335,989 (the "AVIC Sunda Disposal").

Upon completion of the transfer of the 22.35% equity interest in AVIC Sunda, the Company will no longer hold any equity interest in AVIC Sunda.

For details, please refer to the announcements of the Company dated 26 April 2019, 5 June 2019, 20 June 2019, 24 July 2019, 25 July 2019 and 23 August 2019, and the circular of the Company dated 24 June 2019.

5. Discloseable Transaction – Master Cooperation Agreement

On 2 July 2019, Wuhan Tianma Microelectronics Co., Ltd. ("Wuhan Tianma") and Applied Materials East Asia Pte. Ltd. entered into the master cooperation agreement (the"Master Cooperation Agreement"), pursuant to which the parties collaborate in relation to the G6 project phase 2 of Wuhan Tianma according to the terms set out therein. The term of the Master Cooperation Agreement commences from the date of the Master Cooperation Agreement to 31 July 2019 with the aggregate amount of consideration not exceeding US$80,000,000 (equivalent to approximately RMB548,000,000).

For details, please refer to the announcement of the Company dated 2 July 2019.

6. Discloseable Transaction – Master Cooperation Agreement

On 10 September 2019, Wuhan Tianma, SFA Engineering (Shenzhen) Co., Ltd. ("**SFA (SZ)**")and SFA Engineering Corp. ("**SFA Engineering**") entered into the master cooperation agreement, pursuant to which the parties agreed to collaborate in relation to the G6 project phase 2 according to the terms set out therein. The term of the Master Cooperation Agreement commences from the date of the Master Cooperation Agreement to 31 December 2019 with the aggregate amount of consideration not exceeding RMB710,890,000, among which the maximum aggregated consideration payable to SFA Engineering being US$90,000,000 (equivalent to approximately RMB640,890,000) and the maximum aggregated consideration payable to SFA (SZ) being RMB70,000,000.

For details, please refer to the announcement of the Company dated 10 September 2019.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTEREST

Directors, supervisors and chief executives

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executives of the Company was interested in any share, underlying share or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any Director or supervisor or chief executive of the Company were taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register maintained by the Company under section 352 of the SFO or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long position in the Shares:

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital
Domestic Shares				
Aviation Industry Corporation of China, Ltd ("**Aviation Industry Group**")	Interest of controlled corporations	1,634,608,792 Domestic Shares *(Note 1)*	196.24%	140.17%

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital
AVIC International Holding Corporation (“**AVIC International**”)	Interest of controlled corporation	1,634,608,792 Domestic Shares *(Note 1)*	196.24%	140.17%
AVIC International Shenzhen Company Limited (“**AVIC Shenzhen**”)	Beneficial owner	429,774,574 Domestic Shares *(Note 1)*	51.60%	36.85%
H shares				
CK Hutchison Holdings Limited	Interest of controlled corporations	31,680,000 H shares *(Note 2)*	9.50%	2.71%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	31,680,000 H shares *(Note 2)*	9.50%	2.71%
Cheung Kong Investment Company Limited	Interest of controlled corporation	11,950,000 H shares *(Note 2)*	3.58%	1.02%
Empire Grand Limited	Beneficial owner	11,950,000 H shares *(Note 2)*	3.58%	1.02%
Hutchison Whampoa Limited	Interest of controlled corporation	19,730,000 H shares *(Note 2)*	5.92%	1.69%
Hutchison International Limited	Beneficial owner	19,730,000 H shares *(Note 2)*	5.92%	1.69%

Notes:

1. Aviation Industry Group owns 91.14% of the equity interest in AVIC International which in turn owns 100% equity interest in AVIC Shenzhen. Hence, Aviation Industry Group is deemed, or taken to be, interested in all the Shares in which AVIC International and AVIC Shenzhen are interested in, respectively. AVIC International owns 100% of the equity interest in AVIC Shenzhen. Hence, AVIC International is deemed, or taken to be, interested in all the Shares in which AVIC Shenzhen is interested. As at the Latest Practicable Date:

    (1) AVIC International held: (A) 437,264,906 domestic shares, representing approximately 37.50% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB2,663,465,514 which may be converted into 767,569,312 domestic shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).

(2) AVIC Shenzhen held: (A) 395,709,091 domestic shares, representing approximately 33.93% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB118,207,225 which may be converted into 34,065,483 domestic shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).

2. Empire Grand Limited ("**Empire Grand**") holds 11,950,000 H shares and Empire Grand is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("**CKH**"). Accordingly, CKH was deemed to be interested in the 11,950,000 H shares held by Empire Grand. Hutchison International Limited ("**HIL**") holds 19,730,000 H shares and HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited. Hutchison Whampoa Limited was deemed to be interested in the 19,730,000 H shares held by HIL. CKH is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa Limited. Accordingly, CKH was deemed to be interested in the 19,730,000 H shares held by HIL. In addition, CKH is a wholly-owned subsidiary of CK Hutchison Holdings Limited ("**CK Hutchison**"). Accordingly, CK Hutchison was deemed to be interested in the 31,680,000 H shares in total held by Empire Grand and HIL.

Long position in shares of any member of the Group:

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Kabao Commerce and Trade Co., Ltd* (卡寶商貿有限公司)	Beijing Kaibao Cleaning Equipment Co., Ltd* (北京凱堡清潔設備有限公司) (a subsidiary of the AVIC International Beijing Company Limited (中國航空技術北京有限公司) ("Beijing Company"))	25%
Aviation Industry Corporation of China Chengdu Aircraft Design Institute* (中國航空工業集團公司成都飛機設計研究所)	Chengdu AVIC Raise Real Estate Company Limited* (成都中航瑞賽置業有限公司) ("Chengdu Raise")	30%
Chengdu Cheng Fei Enterprise Management Co., Ltd.* (成都成飛企業管理有限公司)	Chengdu Raise	10%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Jiliang Group Qin Zhou Port Grain and Oil Transportation & Sale Co., Ltd.* (吉糧集團欽州港糧油運銷有限公司)	Guang Xi AVIC Lu Tong Bitumen Co., Ltd.* (廣西中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong Industrial Co., Ltd.* ("AVIC Lu Tong") (中航路通實業有限公司))	44%
Zhang Zhihua (張志華)	Guang Xi AVIC Lu Tong Bitumen Co., Ltd (廣西中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong)	5%
Guizhou Transportation Logistics Group Co., Ltd* (貴州省交通物流集團有限公司)	Guizhou Qian He Logistics Co., Ltd.* (貴州黔和物流有限公司) (a subsidiary of AVIC Lu Tong)	45%
Hu Nan Hong Yi Building Materials Commerce and Trading Co., Ltd.* (湖南省弘易建材商貿有限公司)	Hu Nan AVIC Lu Tong Bitumen Co., Ltd.* (湖南中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong)	15%
Zhang Zhonghua (張仲華)	Beijing AVIC Lu Tong Bituminous Materials Co., Ltd.* (北京中航路通瀝青材料有限公司) (a subsidiary of AVIC Lu Tong)	30%
Liang Rong (梁嶸)	Beijing AVIC Lu Tong Bituminous Materials Co., Ltd.* (北京中航路通瀝青材料有限公司) (a subsidiary of AVIC Lu Tong)	19%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Sun Dawei (孫大為)	Station 68 Limited* (68站有限公司) (an indirect subsidiary of FIYTA (Group) Co., Ltd. ("FIYTA"))	20%
Chen Zhaozhong (陳昭仲)	Station 68 Limited* (68站有限公司) (an indirect subsidiary of FIYTA)	20%
Jiangsu Zhenjiang Shipyard (Group) Co., Ltd.* (江蘇省鎮江船廠(集團)有限公司)	AVIC Zhenjiang Shipyard Marine Pte Ltd (a subsidiary of AVIC International Maritime Holdings Limited)	40%
MOS Glaretec GmbH	Glaretec Gmbh (an indirect subsidiary of Shennan Circuit Co., Ltd* (深南電路股份有限公司))	48%
Laos Jeddah Group Co., Ltd.* (老撾吉達蓬集團有限公司)	AVIC International Investment (Laos) Limited* (中航國際投資(老撾)有限公司) (a subsidiary of China National Aero-Technology International Engineering Co., Ltd* (中國航空技術國際工程有限公司))	40%
AVIC Trust Co., Ltd.* (中航信託股份有限公司)	Guangdong International Building Industry Co., Ltd* (廣東國際大廈實業有限公司)	25%
Fuzhou Kaizelin Economic and Trade Co., Ltd* (福州凱澤林經貿有限公司)	AVIC (Xiamen) Medical Technology Co., Ltd* (中航(廈門)醫療科技有限公司) (a subsidiary of Xiamen Company)	49%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Inner Mongolia Mountain Road Energy Group Co., Ltd* (內蒙古山路能源集團有限責任公司)	AVIC Photosyn (Shanghai) Renewable Energy Co., LTD* (中航光合(上海)新能源有限公司) (a subsidiary of AVIC International Renewable Energy Development Co., Ltd (中航國際新能源發展有限公司))	49%
Jin Si Fang Investment (Beijing) Co., Ltd.* (金四方投資(北京)有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北京)光電科技有限公司) (an indirect subsidiary of the Company)	17.4%
Shijiazhuang Fangqiu Trade Co., Ltd.* (石家莊方遒貿易有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北 京)光電科技有限公司) (an indirect subsidiary of the Company)	22.6%

Save as disclosed above and so far as was known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors, the supervisors or chief executives of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

* *For identification purpose only*

Interests in the Group's assets or contracts or arrangements significant to the Group

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any asset which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

Service contracts

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors or supervisors of the Company and any member of the Group.

Competing interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete either directly or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

Material adverse change

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up).

Litigation

On 13 June 2014, Tang Energy Group Limited ("Tang Energy"), Soaring Wind Energy LLC. ("Soaring Wind") and its other group members (collectively, the "Claimants") filed an arbitration claim with the American Arbitration Association against AVIC International USA, Inc ("AVIC USA"), the controlling shareholders of the Company and subsidiaries of the Company (including, among others, Aviation Industry Group, AVIC International and AVIC International Renewable Energy Company Limited ("RE Company")) (collectively, the "Respondents") in respect of a dispute (the "Dispute") arising out of a joint venture agreement (the "Arbitration Claim"). The Arbitration Claim is the claim brought by the Claimants against the Respondents in respect of a dispute arising out of a joint venture agreement entered into between Tang Energy and AVIC USA in 2008 (the "JV Agreement"), whereby the Claimants treated AVIC USA as the agent of Aviation Industry Group in the USA, and all involved Aviation Industry Group and their subsidiaries are deemed as a "single group", all of which shall be bound by the exclusivity provisions under the JV Agreement. Therefore, the Claimants sought damages totalling US$2.25 billion from the Respondents for the alleged breach of the JV Agreement. After the Respondents receiving final decision on the Arbitration Claim issued by the International Centre for Dispute Resolution of International Arbitration Tribunal in December 2015 (the "Award"), pursuant to which the Respondents were jointly and severally liable to pay to the Claimants damages and fees (including but not limited to compensation, attorneys' fees and expenses) in relation to the Dispute in the total amount (the "Amount") of approximately US$71,000,000, the Group had engaged a law firm to assist in the Arbitration Claim and has taken further legal action against the Decision. In March 2016, the Group had filed an application to the competent court to oppose the enforcement of the Award and request for the vacation of the Award (the "Opposition Application"). On 15 August 2018, the Respondents received the orders issued by the United States District Court for the Northern District of Texas Dallas Division. The orders ruled that the aforesaid decision against AVIC USA was effective, and the requests made by the Claimants' against other Respondents shall be determined by the court in a separate action. The Company will issue further announcement if there is any further development. For details, please refer to the Company's announcements published on 29 April 2015, 22 December 2015 and 15 August 2018.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group.

Material contract:

The following contracts were entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(1) On 10 September 2019, Wuhan Tian Ma Microelectronics Co., Ltd (武漢天馬微電子有限公司) (the "Wuhan Tianma"), SFA Engineering (Shenzhen) Co., Ltd. (三發機電(深圳)有限公司) ("SFA (SZ)") and SFA Engineering Corp. ("SFA Engineering") entered into the master cooperation agreement, pursuant to which the parties agreed to collaborate in relation to the G6 project phase 2 according to the terms set out therein the term of which commences from the date of the master cooperation agreement to 31 December 2019 with the aggregate amount of consideration not exceeding RMB710,890,000, among which the maximum aggregated consideration payable to SFA Engineering being US$90,000,000 (equivalent to approximately RMB640,890,000) and the maximum aggregated consideration payable to SFA (SZ) being RMB70,000,000.

(2) On 28 August 2019, Tian Ma Microelectronics Company Limited (天馬微電子股份有限公司) ("Tian Ma") entered into a subscription agreement with Hubei Changjiang Tianma Fixed Investment Fund Partnership (Limited Partnership)* (湖北長江天馬定增投資基金合夥企業(有限合夥)) ("Subscriber A") whereby Subscriber A agreed to subscribe for not more than 81,924,922 new A shares to be issued by Tian Ma.

(3) On 27 August 2019, China Merchants Industry Investment Limited ("CMII") (as offeror) and the Company (as offeree) entered into the implementation agreement, pursuant to which CMII agreed to make the acquisition offer at the offer price of S$0.15 per target share to acquire the target shares (all the shares owned by the Company in AVIC International Maritime Holdings Limited ("AVIC Maritime") on the date when the acquisition offer (if materialized) is made, being 210,947,369 shares in AVIC Maritime, representing approximately 73.87% of the total issued shares of AVIC Maritime) from the Company at the cash consideration of S$31,642,105.35 (subject to possible upward adjustment pursuant to the Singapore Code on Take-overs and Mergers) subject to the fulfillment of the pre-condition.

(4) On 9 July 2019, SCC entered into the underwriting agreement with AVIC Securities Co., Ltd. (中航證券有限公司) (a connected person of the Company) ("AVIC Securities") in relation to the proposed issuance of A shares convertible bonds by SCC ("SCC CB") pursuant to which, among other things, SCC agreed to engage AVIC Securities as lead underwriter with the maximum underwriting amount of AVIC Securities for SCC CB being RMB200,000,000.

(5) On 2 July 2019, Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司) and Applied Materials South East Asia Pte. Ltd. entered into the master cooperation agreement, pursuant to which the parties agreed to collaborate in relation to the G6 project phase 2 according to the terms set out therein the term of which commences from the date of the master cooperation agreement to 31 July 2019 with the aggregate amount of consideration not exceeding US$80,000,000 (equivalent to approximately RMB548,000,000).

(6) On 26 April 2019, the Company entered into the equity transaction agreement (the "Weihai Shipyard Equity Transaction Agreement") with China Merchants Offshore Engineering Investment (Shen Zhen) Co., Ltd. (深圳市招商局海工投資有限公司) ("CMOEI") pursuant to which the Company agreed to transfer 69.77% equity interest in AVIC Weihai Shipyard Company Limited (中航威海船廠有限公司) ("Weihai Shipyard") and the shareholder's loan of Weihai Shipyard to CMOEI at the consideration of not exceeding RMB620,000,000, which comprises (i) RMB1, being the consideration for the 69.77% equity interest in Weihai Shipyard; and (ii) not exceeding RMB619,999,999, being the consideration for the shareholder's loan in Weihai Shipyard. Further, pursuant to the Weihai Shipyard Equity Transaction Agreement, CMOEI or its actual controller will provide a bank guarantee letter and guarantee letter of China Merchants Group Limited (招商局集團有限公司) to provide a counter-guarantee in favour of the Company. Upon completion of the transfer of the 69.77% equity interest in Weihai Shipyard, the Company will no longer hold any equity interest in Weihai Shipyard and Weihai Shipyard will cease to be a subsidiary of the Company.

(7) On 26 April 2019, the Company entered into the equity transfer agreement with China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) ("CMSK"), pursuant to which the Company agreed to transfer 149,087,820 A shares in AVIC Sunda Holding Company Limited (中航善達股份有限公司) ("AVIC Sunda") (representing 22.35% of the issued share capital of AVIC Sunda) to CMSK at the consideration of RMB1,334,335,989.

(8) On 10 April 2019, Chengdu AVIC Raise Real Estate Company Limited (成都中航瑞賽置業有限公司) ("Chengdu Raise") and Beijing Raise Science Company Limited (北京瑞賽科技有限公司) ("Beijing Raise") entered into the equity transaction agreement with Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) in respect of the disposal of 20% equity interest and creditor's rights in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("Chengdu Jujin") held by Chengdu Raise and and the disposal of 80% equity interest and creditor's rights in Chengdu Jujin held by Beijing Raise at an aggregate consideration of RMB2,213,869,547. The consideration for the disposal of 20% equity interest and creditor's rights in Chengdu Jujin held by Chengdu Raise is RMB509,198,972. And also, on 10 April 2019 Chengdu Raise, Beijing Raise, Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) and Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) entered into the payment guarantee agreement, pursuant to which Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) provided a guarantee for payment of consideration by Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) to Chengdu Raise and Beijing Raise.

(9) On 17 November 2018, the Company entered into the capital increase agreement with Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司) ("Aviation Industry Group"), Shaanxi Aviation Industry Development Group Co., Ltd. (陝西航空產業發展集團有限公司 ("Shaanxi Aviation Industry Development"), Xi'an Industrial Investment Group Co., Ltd. (西安工業投資集團有限公司) ("Xi'an Industrial Investment"), AVIC Aircraft Corporation (中航飛機股份有限公司) ("AVIC Aircraft"), Xi'an Aircraft Industry (Group) Co., Ltd. (西安飛機工業(集團)有限責任公司) ("Xi'an Aircraft Industry"), AVIC Airborne Systems Co., Ltd. (中航機載系統有限公司), AVIC International Aviation Development Co., Ltd. (中航國際航空發展有限公司) and AVIC Aviation Electronics Systems Co., Ltd. (中航航空電子系統有限責任公司), pursuant to which Aviation Industry Group, Shaanxi Aviation Industry Development, Xi'an Industrial Investment, AVIC Aircraft and Xi'an Aircraft Industry agreed to make capital contributions (the "Capital Increase") in the total sum of approximately RMB6.723 billion (equivalent to approximately HK$7.64 billion) to AVIC Xifei Civil Aircraft Co., Ltd. (中航西飛民用飛機有限責任公司). Pursuant to section 34 of the Company Law of PRC, the Company has the right of first refusal in relation to the Capital Increase, the Company decided not to exercise the right of first refusal in relation to the Capital Increase.

(10) On 24 October 2018, the Company (as vendor) and AVIC International (as purchaser) entered into equity transfer agreement, pursuant to which the Company agreed to sell and AVIC International agreed to purchase 60% equity interest in AVIC International Simulation Technology Service Co., Ltd. (中航國際模擬科技服務有限公司) at the consideration of RMB31,611,120.

(11) The supplemental agreement dated 10 September 2018 entered into among Tian Ma Micro-electronics Company Limited ("Tian Ma"), AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("Xiamen Jincai"), pursuant to which that the term in the framework agreement entered into among Tian Ma, AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai on 10 March 2017 that the "placing price of placing shares for the proposed A shares placing shall not be lower than the issue price of the consideration shares" shall be deleted.

(12) The supplemental agreement dated 10 September 2018 entered into among Tian Ma, Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) ("Shanghai Investment Company") and Shanghai Zhangjiang (Group) Co., Ltd. (上海張江(集團)有限公司) ("Shanghai Zhangjiang Company"), pursuant to which that the term in the framework agreement entered into among Tian Ma, Shanghai Investment Company and Shanghai Zhangjiang Company on 10 March 2017 that the "placing price of placing shares for the proposed A shares placing shall not be lower than the issue price of the consideration shares" shall be deleted.

(13) The equity transaction agreement dated 23 January 2018 entered into between the China National Aero Technology International Engineering Company Limited (中國航空技術國際工程有限公司) ("International Engineering Company") and AVIC Shenzhen as the vendors and Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) as the purchaser in respect of the disposal of the 24.5% equity interest (the "AVIC Construction Engineering Interest") in AVIC Construction Engineering Company Limited (中航建築工程有限公司) ("AVIC Construction Engineering") held by the International Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200 with the consideration of RMB39,440,520 for the AVIC Construction Engineering Interest and the consideration of RMB82,100,680 for the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen.

(14) The equity transaction agreement dated 2 January 2018 entered into between the Company and AVIC International as the vendors and Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) as the purchaser in respect of the disposal of the 47.12% equity interest (the "AVIC Vanke Interest") in AVIC International Vanke Company Limited (中航萬科有限公司) ("AVIC Vanke") held by the Company and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of

RMB2,348,278,960 with the consideration of RMB1,844,181,743.25 for the disposal of the AVIC Vanke Interest and the consideration of RMB504,097,216.75 for the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International.

(15) The equity transaction agreement dated 8 November 2017 entered into between International Engineering Company which is a wholly-owned subsidiary of the Company as vendor and Shenzhen Yunli Hotel Management Co., Ltd (深圳雲裡酒店管理有限公司) as purchaser in respect of the disposal of 20% equity interest in Hangfa Investment Management Co., Ltd (航發投資管理有限公司) which is held by International Engineering Company at a consideration of RMB664,417,540.

* *For identification purpose only*

EXPERT

(a) The following is the qualification of the expert who has given opinion or advice contained in this circular

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong

(b) As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its report and references to its name in the form and context in which it appears.

(d) As at the Latest Practicable Date, Deloitte Touche Tohmatsu had no interest in any asset which have been since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

MISCELLANEOUS

(1) Mr. Xiao Zhang Lin (“Mr. Xiao”) is the company secretary of the Company. Mr. Xiao, aged 42, holds a MBA degree from Shanghai Jiao Tong University (上海交通大學). He was appointed as a joint company secretary of the Company in February 2018. In 2015, Mr. Xiao was recognised as a senior engineer by Aviation Industry Group. Currently, he is the head of the strategy and operations management department of the Company, the company secretary, and a director of AVIC Real Estate Holding Company Limited, SCC, Fiyta Holdings Limited and Rainbow Department Store Company Limited.

(2) The registered office of the Company is situated at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, PRC.

(3) The principal place of business in Hong Kong of the Company is situated at Room 1603, 16/F, China Building, 29 Queen’s Road Central, Central, Hong Kong.

(4) The H Share registrar of the Company, Hong Kong Registrars Limited, is situated at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

(5) Save as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

Documents for Inspection

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(1) the articles of association of the Company;

(2) the letter from the Board, the text of which is set out on pages 6 to 24 of this circular;

(3) the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Group as set out in Appendix III to this circular;

(4) the written consent of the expert referred to in the paragraph headed "Expert" in this appendix;

(5) the material contracts mentioned in the paragraph headed "Material Contracts" in this appendix;

(6) the 2016, 2017 and 2018 annual reports of the Company;

(7) the 2019 interim report of the Company;

(8) a copy of each circular issued by the Company pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules since 31 December 2018; and

(9) this circular.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00161)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of AVIC International Holdings Limited (the "**Company**") will be held at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the People's Republic of China on Monday, 11 November 2019 at 2:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the proposed issue by Tian Ma Micro-electronics Company Limited (天馬微電子股份有限公司) ("**Tian Ma**") by way of non-public offer of not more than 409,624,610 new A shares of Tian Ma to not more than ten investors (the "**Proposed Non-Public Issuance**") to raise a maximum amount of proceeds of RMB7,300,000,000 be and is hereby approved; and

(b) any one director of the Company be and is hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents and take all steps which may be in his/her opinion necessary, desirable or expedient to implement and/or give effect to the terms of the Proposed Non-Public Issuance and the transactions contemplated thereunder."

By Order of the Board
AVIC International Holdings Limited
Liu Hong De
Chairman

Shenzhen, the People's Republic of China, 16 September 2019

Notes:

1. **Eligibility for the EGM**

   Shareholders of the Company who intend to attend the EGM must deliver all instruments of transfer, accompanied by the relevant share certificates, to the legal address of the Company (for holders of domestic shares) or to the H share registrar of the Company, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H shares) on or before 4:30 p.m. on Friday, 11 October 2019.

2. **Registration procedures for the EGM**

   (a) A shareholder or his proxy should produce proof of identity when attending the EGM.

   (b) Shareholders of the Company who intend to attend the EGM should return the confirmation slip for the EGM to the Company on or before Monday, 21 October 2019.

   (c) Shareholders of the Company may send the above confirmation slip to the legal address of the Company in person, by post or by facsimile.

3. **Proxy**

   (a) A shareholder of the Company eligible to attend the EGM is entitled to appoint one or more proxies to attend and vote on his/her behalf in accordance with the articles of association of the Company. A proxy need not be a shareholder of the Company.

   (b) A proxy shall be appointed by a written instrument signed by the appointer or its attorney. If the proxy form is signed by the attorney of the appointer, the power of the attorney or other authorisation document(s) of such attorney should be notarised.

   (c) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed proxy form, must be delivered to the legal address of the Company (for holders of domestic shares) or to the H share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) not less than 24 hours before the time designated for the holding of the EGM or not less than 24 hours before the time appointed for taking the poll.

   (d) A shareholder of the Company who has appointed more than one proxy shall only vote on a poll at the EGM.

4. **Closure of Register of Members of the Company**

   The register of members of the Company will be closed from Saturday, 12 October 2019 to Monday, 11 November 2019 (both days inclusive), during which no transfer of shares of the Company will be effected. Holders of shares whose names stand on the register of members of the Company at 4:30 p.m. on Friday, 11 October 2019 are entitled to attend and vote at the EGM.

5. **The EGM is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.**

   Legal address of the Company:

   39/F, AVIC Center Building
   No. 1018 Huafu Road
   Futian District, Shenzhen
   Guangdong Province
   the People's Republic of China
   Tel.: 0755-2124 6901
   Fax: 0755-8379 0228
   Postal code: 518031
   Websites: www.avic161.com

The Board comprises a total of 9 Directors, Mr. Liu Hong De, Mr. Lai Wei Xuan, Mr. You Lei, Mr. Liu Jun, Mr. Fu Fang Xing and Mr. Chen Hong Liang as executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei as independent non-executive Directors.